



**SELECTED WORKS  
OF  
CHEN YUN**

**Volume III**

**(1956-1994)**

WORKERS OF ALL COUNTRIES, UNITE!



# SELECTED WORKS OF CHEN YUN

Volume III

(1956-1994)

*Translated by*

The Bureau for the Compilation and Translation  
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the Communist Party of China

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## EDITOR'S NOTE ON THE SECOND EDITION

The *Selected Works of Chen Yun (1956-85)* was published in 1986. With the approval of the author, the second edition is issued and the book is renamed the *Selected Works of Chen Yun (Volume III)* .

Twenty-seven articles are added to the book, and the time extends from September 1985 to February 1994. The book contains 83 articles.

Chronologically, the four articles at the end of the book in the first edition are included in the *Selected Works of Chen Yun (Volume I)* .

In the second edition, a few changes have been made in wording and punctuation of some texts and footnotes, and a few notes have been revised and added to the book.

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

February 1995

## EDITOR'S NOTE

Volume III of the *Selected Works of Chen Yun* contains 56 important articles and speeches written or delivered by Comrade Chen Yun from September 1956 to September 1985, most of which are published here for the first time. Many of these writings and speeches deal with developing the socialist economy and improving the work style of a party in power through building it ideologically and organizationally.

This volume may be roughly divided into two chronological sections. The first section covers the period from September 1956 to March 1962. During this period, China basically completed the socialist transformation and began socialist economic development on a large scale, but it suffered serious setbacks. In view of the new situation and the problems that arose, the author expounded many important economic views and put forward many practicable proposals, including proposals for improvement of the country's economic structure. It is widely known that these views and proposals played a major role in consolidating the tremendous achievements made shortly after the founding of the People's Republic, and thus in overcoming the serious difficulties and reversing the unfavourable situation at that time. The second section covers the period from March 1977 to September 1985. During this period, following the downfall of the Gang of Four, the Party established and implemented correct ideological, political and organizational lines. The author puts forth certain views which are of far-reaching significance. These views have provided guidance and impetus for the Party to initiate a great development in readjusting the economy, conducting the socialist modernization drive, reforming the socialist economic structure in light of China's actual conditions, improving the quality of ranks of cadres and in carrying on the fine work style of the Party.

Four of Chen Yun's important articles, recently collected although written during the new-democratic revolution, are included at the end of this book. They will be included in the second edition of the *Selected Works of Chen Yun*.

This volume was edited by the Research Office of the Secretariat of the CPC Central Committee and was examined and proofread by the Party Literature Research Centre of the CPC Central Committee. This volume and Volume II of the *Selected Works of Chen Yun* (1949-1956) are arranged

chronologically and employ the same editorial methods.

Everything presented in this volume has been examined and approved by the author.

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

January 31, 1986

## CONTENTS

|  |     |
|--|-----|
| NEW PROBLEMS THAT HAVE ARISEN FOLLOWING BASIC COMPLETION<br>OF SOCIALIST TRANSFORMATION ( <i>September 20, 1956</i> )                    | 13  |
| A SOLUTION TO THE SHORT SUPPLY OF PORK AND OTHER NON-<br>STAPLE FOODSTUFFS ( <i>November 11, 1956</i> )                                  | 27  |
| ACCOMPLISHING OUR COMMERCIAL WORK ( <i>November 19, 1956</i> )   | 40  |
| WHY WE ADOPTED A POLICY OF REDEMPTION TOWARDS CAPITALIST<br>ENTERPRISES ( <i>November 28, 1956</i> )                                     | 48  |
| STRENGTHENING THE POLITICAL OUTLOOK, MASS OUTLOOK AND<br>PRODUCTION OUTLOOK ON COMMERCIAL WORK ( <i>December<br/>1956-January 1957</i> ) | 56  |
| MAKING THE SCALE OF DEVELOPMENT COMMENSURATE WITH THE<br>NATIONAL STRENGTH ( <i>January 18, 1957</i> )                                   | 60  |
| ANSWERS TO A XINHUA CORRESPONDENT ON MARKET PRICING ( <i>April<br/>29, 1957</i> )  | 70  |
| WE MUST SOLVE THE PROBLEM OF VEGETABLE SUPPLY PROPERLY ( <i>July<br/>22, 1957</i> )  | 75  |
| WE MUST ADVOCATE BIRTH CONTROL ( <i>August 20, 1957</i> )  | 79  |
| WE MUST ATTACH IMPORTANCE TO GRAIN WORK ( <i>September 6, 1957</i> )   | 80  |
| PROBLEMS MERITING OUR ATTENTION AFTER HAVING IMPROVED<br>THE ECONOMIC STRUCTURE ( <i>September 24, 1957</i> )                            | 86  |
| PRINCIPAL SOLUTIONS TO THE PROBLEMS OF FOOD AND CLOTHING<br>( <i>September 24, 1957</i> )  | 89  |
| REGULATIONS ON THE IMPROVEMENT OF THE INDUSTRIAL MANAGE-<br>MENT SYSTEM ( <i>November 8, 1957</i> )                                      | 98  |
| REGULATIONS ON THE IMPROVEMENT OF THE COMMERCIAL MAN-<br>AGEMENT SYSTEM ( <i>November 8, 1957</i> )                                      | 106 |
| REGULATIONS ON THE IMPROVEMENT OF THE FINANCIAL MANAGE-<br>MENT SYSTEM ( <i>November 8, 1957</i> )                                       | 110 |
| REVIEWING EXPERIENCE IS AN IMPORTANT METHOD OF SELF-<br>IMPROVEMENT ( <i>December 23, 1958</i> )   | 116 |
| SEVERAL IMPORTANT QUESTIONS ABOUT ENSURING THE QUALITY OF<br>CAPITAL CONSTRUCTION PROJECTS ( <i>December 26, 1958</i> )                  | 119 |
| LETTER TO COMRADES IN THE CENTRAL FINANCIAL AND ECONOMIC<br>GROUP ( <i>April 1959</i> )  | 133 |

---

|  |     |
|--|-----|
| THE QUESTION OF SETTING REALISTIC TARGETS FOR THE PRODUCTION OF IRON AND STEEL ( <i>May 11, 1959</i> )                 | 137 |
| A LETTER TO COMRADE MAO ZEDONG CONCERNING THE IRON AND STEEL TARGET ( <i>May 15, 1959</i> )                            | 147 |
| ONE SIDE OF THE NET SHOULD BE LEFT OPEN IN MANAGING THE MARKET ( <i>January 19, 1961</i> )                             | 149 |
| SPEEDING UP DEVELOPMENT OF THE NITROGENOUS FERTILIZER INDUSTRY ( <i>May 16, 1961</i> )                                 | 153 |
| HANDLING FOREIGN TRADE WELL ( <i>May 30, 1961</i> )  | 161 |
| MOBILIZING URBAN RESIDENTS TO MOVE TO THE COUNTRYSIDE ( <i>May 31, 1961</i> )  | 165 |
| RURAL SURVEY OF QINGPU COUNTY ( <i>August 8, 1961</i> )  | 175 |
| HOW WE CAN GAIN A MORE CORRECT UNDERSTANDING ( <i>February 8, 1962</i> )   | 193 |
| THE CURRENT FINANCIAL AND ECONOMIC SITUATION AND SOME METHODS FOR OVERCOMING DIFFICULTIES ( <i>February 26, 1962</i> ) | 197 |
| TALK AT A MEETING OF THE CENTRAL FINANCIAL AND ECONOMIC GROUP ( <i>March 7, 1962</i> )                                 | 212 |
| WE SHOULD RESEARCH CONTEMPORARY CAPITALISM ( <i>June 7, 1973</i> )   | 220 |
| PROBLEMS IN DOING IMPORT WORK THROUGH COMMODITY EXCHANGES ( <i>October 10, 1973</i> )                                  | 224 |
| MAKING USE OF CHINA'S RICH LABOUR FORCE TO PRODUCE FINISHED PRODUCTS FOR EXPORT ( <i>October 12, 1973</i> )            | 226 |
| PROBLEMS CONCERNING EXPORT OF HANDICRAFTS ( <i>December 4, 1973</i> )  | 228 |
| ON TRADE WITH HONG KONG AND MACAO ( <i>August 14, 1974</i> )   | 231 |
| TWO IMPORTANT ISSUES AFTER THE DOWNFALL OF THE GANG OF FOUR ( <i>March 13, 1977</i> )                                  | 233 |
| UPHOLDING THE PRINCIPLE OF CORRECTING MISTAKES WHENEVER DISCOVERED ( <i>November 12, 1978</i> )                        | 234 |
| FIVE OPINIONS ON CURRENT ECONOMIC ISSUES ( <i>December 10, 1978</i> )  | 237 |
| SPEECH AT THE FIRST PLENARY SESSION OF THE CENTRAL COMMISSION FOR DISCIPLINE INSPECTION ( <i>January 4, 1979</i> )     | 240 |
| PROBLEMS CONCERNING PLANNING AND THE MARKET ( <i>March 8, 1979</i> )   | 245 |
| LETTER ON FINANCIAL AND ECONOMIC WORK TO THE CPC CENTRAL COMMITTEE ( <i>March 14, 1979</i> )                           | 248 |
| UPHOLDING THE PRINCIPLE OF PROPORTIONAL DEVELOPMENT IN ADJUSTING THE NATIONAL ECONOMY ( <i>March 21, 1979</i> )        | 249 |
| SPEECH AT THE FIRST MEETING OF THE FINANCIAL AND ECONOMIC COMMISSION OF THE STATE COUNCIL ( <i>March 25, 1979</i> )    | 255 |
| WORKING TOGETHER WITH ONE HEART TO BUILD THE BAOSHAN IRON AND STEEL COMPANY ( <i>June 16, 1979</i> )                   | 258 |

---

|   |     |
|---|-----|
| TWO MAJOR PROBLEMS IN ECONOMIC DEVELOPMENT ( <i>June 17, 1979</i> )   | 263 |
| MAINTAINING STEADY ECONOMIC DEVELOPMENT ( <i>September 18, 1979</i> )   | 264 |
| IT IS IMPORTANT FOR THE PARTY TO REESTABLISH THE SECRETARIAT<br>OF THE CENTRAL COMMITTEE ( <i>February 24, 1980</i> )   | 269 |
| THE CONDUCT OF THE PARTY IN POWER IS A LIFE OR DEATH ISSUE<br>( <i>November 1980 to October 1984</i> )  | 272 |
| THE ECONOMIC SITUATION AND THE LESSONS WE HAVE LEARNED<br>( <i>December 16, 1980</i> )  | 275 |
| SEVERAL OPINIONS ON THE DRAFTS OF THE RESOLUTION ON CER-<br>TAIN QUESTIONS CONCERNING THE HISTORY OF OUR PARTY<br>SINCE THE FOUNDING OF THE PEOPLE'S REPUBLIC OF CHINA<br>( <i>March 1981</i> ) | 281 |
| TRAINING ARTISTS, WRITING PLAYS AND FOLLOWING A CORRECT<br>PATH ( <i>April 5, 1981</i> )  | 285 |
| EDITING CLASSICAL LITERATURE IS A MAJOR TASK REQUIRED FOR<br>PASSING ON THE CULTURAL LEGACY OF THE MOTHERLAND ( <i>April</i><br><i>1981</i> )   | 287 |
| PROMOTING AND TRAINING YOUNG AND MIDDLE-AGED CADRES IS<br>OUR URGENT TASK ( <i>May 8, 1981</i> )  | 290 |
| WE SHOULD PROMOTE THOUSANDS UPON THOUSANDS OF YOUNG<br>AND MIDDLE-AGED CADRES ( <i>July 2, 1981</i> )   | 295 |
| SOME COMMENTS ON THE TRIAL OF THE "TWO CASES" ( <i>November 19,</i><br><i>1981</i> )  | 301 |
| SEVERAL IMPORTANT PRINCIPLES TO BE IMPLEMENTED IN ECONOMIC<br>DEVELOPMENT ( <i>December 22, 1981</i> )  | 302 |
| IMPROVING THE WORK OF ECONOMIC PLANNING ( <i>January 25, 1982</i> )   | 305 |
| IMPROVING THE WORKING AND LIVING CONDITIONS OF MIDDLE-<br>AGED INTELLECTUALS ( <i>July 1, 1982</i> )  | 308 |
| SPEECH AT THE TWELFTH NATIONAL CONGRESS OF THE COMMUNIST<br>PARTY OF CHINA ( <i>September 6, 1982</i> )   | 310 |
| SOME QUESTIONS CONCERNING ATTAINMENT OF THE STRATEGIC<br>OBJECTIVES SET BY THE PARTY'S TWELFTH NATIONAL CONGRESS<br>( <i>December 2, 1982</i> )   | 313 |
| A TALK WITH CHILDREN OF REVOLUTIONARY MARTYRS ( <i>February 13,</i><br><i>1983</i> )  | 316 |
| MAKING LEADING PARTY AND GOVERNMENT CADRES A MORE REVO-<br>LUTIONARY, YOUNGER, BETTER EDUCATED AND MORE PROFES-<br>SIONALLY COMPETENT CONTINGENT ( <i>February 25, 1983</i> )                   | 317 |
| THE MODERNIZATION DRIVE AND THE TRAINING OF SUCCESSORS<br>( <i>June 30, 1983</i> )  | 318 |
| REMARKS ON COMPILING "THE DECISIVE LIAOXI-SHENYANG CAM-<br>PAIGN" ( <i>August 9, 1983</i> )   | 321 |
| SPEECH AT THE SECOND PLENARY SESSION OF THE TWELFTH CEN-  |     |



---

|  |     |
|--|-----|
| TRAL COMMITTEE OF THE CPC ( <i>October 12, 1983</i> )  | 325 |
| REUNIFY THE MOTHERLAND IN THE INTEREST OF THE NATION AND<br>THE PEOPLE ( <i>December 25, 1983</i> )  | 328 |
| SPEECH AT THE THIRD PLENARY SESSION OF THE TWELFTH CENTRAL<br>COMMITTEE OF THE CPC ( <i>October 20, 1984</i> )   | 330 |
| CHINA AND THE SOVIET UNION HAVE EVERY REASON TO BE FRIENDS<br>( <i>December 24, 1984</i> )   | 333 |
| THE POWER TO ISSUE CURRENCY AND THE QUESTION OF FOREIGN<br>EXCHANGE RESERVES ( <i>February 18, 1985</i> )  | 335 |
| WE SHOULD FOSTER BOTH MATERIAL PROGRESS AND CULTURAL AND<br>IDEOLOGICAL PROGRESS ( <i>June 29, 1985</i> )  | 338 |
| SPEECH AT A NATIONAL CONFERENCE OF THE COMMUNIST PARTY OF<br>CHINA ( <i>September 23, 1985</i> )   | 340 |
| WE MUST CORRECT THE TENDENCY TO NEGLECT FURTHERING CUL-<br>TURE AND IDEOLOGY ( <i>September 24, 1985</i> )   | 345 |
| THE ISSUE OF INVESTIGATION AND STUDY AND THE SYSTEM OF<br>INNER-PARTY DEMOCRATIC LIFE ( <i>January 16, 1987</i> )  | 349 |
| STUDY PHILOSOPHY IN ORDER TO FULFILL HEAVY RESPONSIBILITIES<br>( <i>July 17, 1987</i> )  | 351 |
| WRITTEN SPEECH FOR THE NINTH PLENARY SESSION OF THE CPC<br>CENTRAL COMMISSION FOR DISCIPLINE INSPECTION ( <i>October 19,<br/>1987</i> )  | 354 |
| CONTROLLING POLLUTION AND PROTECTING THE ENVIRONMENT<br>CONSTITUTE A MAJOR POLICY OF CHINA ( <i>August 27, 1988</i> )  | 355 |
| SEVERAL ISSUES CONCERNING THE CURRENT ECONOMIC WORK<br>( <i>October 8, 1988</i> )  | 356 |
| WE MUST COMBAT DISTURBANCES ( <i>May 26, 1989 and May 25, 1990</i> )   | 359 |
| THE ESSENCE OF IMPERIALISM REMAINS UNCHANGED ( <i>September 8,<br/>1989</i> )  | 361 |
| NOT BLINDLY FOLLOWING THE INSTRUCTIONS OF SUPERIORS OR<br>WHAT HAS BEEN READ; CONSIDERING ONLY INFORMATION<br>WHICH HAS BEEN ASCERTAINED THROUGH EXCHANGE, COMPAR-<br>ISON AND RECONSIDERATION ( <i>January 24, 1990</i> ) | 362 |
| TAKING THE PROBLEM OF RELIGIOUS INFILTRATION SERIOUSLY ( <i>April<br/>4, 1990</i> )  | 365 |
| APPROACHING THE CRITICAL ISSUE OF WATER RESOURCES FROM A<br>STRATEGIC PERSPECTIVE ( <i>June 6, 1990</i> )  | 366 |
| TAKING A DOWN-TO-EARTH ATTITUDE IN OUR WORK ( <i>June 6, 1990</i> )  | 367 |
| MOURNING COMRADE LI XIANNIAN ( <i>July 21, 1992</i> )  | 369 |
| WE MUST SAFEGUARD AND STRENGTHEN THE AUTHORITY OF THE<br>PARTY CENTRAL COMMITTEE ( <i>February 9, 1994</i> )   | 371 |
| NOTES  | 373 |

## **NEW PROBLEMS THAT HAVE ARISEN FOLLOWING BASIC COMPLETION OF SOCIALIST TRANSFORMATION**

*September 20, 1956*

I am in agreement with Comrade Mao Zedong's opening speech as well as with the reports made by Comrades Liu Shaoqi, Zhou Enlai and Deng Xiaoping, and also with the revised Party Constitution and the Proposal for the Second Five-Year Plan.<sup>1</sup>

Socialist transformation in our country has achieved a great and decisive victory. Both capitalist industry and commerce and individual agriculture and handicrafts have been incorporated into the socialist sector of the economy. But the scope and speed of this transformation, in which the non-socialist sector was changed and merged into the socialist sector, made it inevitable that we would be faced with new problems and tasks. I should like to offer my views on the problems which have arisen following the upsurge of socialist transformation of the non-socialist sector, primarily capitalist industry and commerce, including some problems which the transformation has caused in state-owned enterprises.

For seven years our Party and the government have been carrying out the socialist transformation of capitalist industry and commerce.<sup>2</sup> It will take us a few more years to bring this work to completion because much remains to be done. Following the changeover from capitalist industry and commerce to joint state-private operation by whole trades, we had to carry out our work focusing on the following three aspects: (1) the capitalists; (2) the workers and office employees; and (3) the solution of new problems in the management of industry and commerce arising from the conversion of capitalist

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Speech delivered at the Eighth National Congress of the Chinese Communist Party. It was carried in the *People's Daily* on September 21, 1956 under the title "New Problems That Have Arisen Since Escalation of the Socialist Transformation of Capitalist Industry and Commerce." Comrade Chen Yun was elected a Vice-Chairman of the Central Committee at the First Plenary Session of the Eighth Central Committee of the Chinese Communist Party held on September 28, 1956.

industry and commerce into socialist industry and commerce.

Much has been done as regards the capitalists. For example, we have fixed the rate of interest<sup>3</sup> on their capital, had a general accounting of the assets of their enterprises, arranged jobs for capitalists and their representatives and gradually improved their working relations with state representatives in enterprises.

As to the workers and office employees, we have promoted a number of the outstanding ones to represent the state in joint state-private enterprises. At present, a new wage plan is being worked out. Under the new plan there will be a gradual increase in wages for those workers and office employees in joint state-private enterprises who are receiving lower pay than those working in similar state-owned enterprises in the same locality, but there will be no reduction where the wages are higher than those paid in state-owned enterprises. It should be stated that we haven't conducted enough educational work among workers and office employees in joint state-private enterprises during the last six months or more, a case of negligence on our part. These workers and office employees have enthusiastically supported the changeover to state-private operation and they have widely organized labour emulation drives. But because our educational work among the workers and staff members has been inadequate, some of them are asking: "How is it that we have even less power than before the changeover?" "Why do former capitalists still have power in the enterprises today?" The fact that workers and office employees entertain such misgivings shows that our work here has been inadequate or that there were shortcomings in our educational work.

The changeover from capitalist enterprises to joint state-private enterprises is a fundamental change of ownership, the change from capitalist ownership to socialist ownership. This transformation has resulted in basic changes in all aspects of relationship within joint state-private enterprises. In 1952, following the struggle waged in all private enterprises against the "five evils" of bribery, tax evasion, theft of state property, cheating on government contracts and stealing of economic information, it became the rule in every capitalist enterprise for the workers to supervise production and for the trade unions to enjoy considerable power over management. Prior to the changeover to joint state-private enterprises, such supervision was necessary and beneficial for production in capitalist enterprises and for their transformation. Now that these enterprises have been converted into joint state-private enterprises, the working class should, instead of merely supervising their own production, take a further step forward by facilitating direct management by the state, which is led by the working class. Of course, in managing these enterprises, the state must rely on workers and office

employees, promoting those who are experienced and competent to positions of leadership and to other administrative jobs. The state must also improve and vigorously enforce the various systems of democratic management within enterprises. The change in the role of workers from that of supervising production to sharing the responsibilities of production management with state representatives appointed by government organs does not constitute a decrease or setback in the workers' power to manage joint state-private enterprises; rather, it is an increase and a step forward. As to the capitalists and their representatives, whatever position or authority they may still retain in the joint state-private enterprises will differ fundamentally from what it was prior to the changeover. Prior to the changeover they owned the property and had the right to manage the enterprise and its personnel. After the changeover, the ownership of enterprises changed hands. However, since the right to own private property has not been entirely abolished, the capitalists can still draw fixed interest on their capital for a certain period of time. Apart from this, the right to manage the enterprise and its personnel no longer belongs to the capitalists, but to the state's specialized companies. The position and authority which capitalists and their representatives still enjoy in joint state-private enterprises is very different from the rights they had prior to the changeover. The position and authority given to them by the state is the same as what is given to ordinary technical personnel or managerial staff. It is given to them not as capitalists, but as public servants working for the state.

Do capitalists in industry and commerce in our country possess knowledge of production techniques and management? We must admit that, unlike the landlord class and bureaucrat-capitalists, the overwhelming majority of the national capitalists in our country do in fact possess, to varying degrees, a knowledge of modern techniques of production and management which we need. In the future, there will certainly be a growing number of culturally advanced engineers, technicians and administrative personnel emerging from the ranks of the working class itself; in fact, they have already begun to appear. But under present circumstances in our country, the national bourgeoisie and its associated intellectuals are, as a class, relatively more advanced culturally. We should make it clear to all workers and office employees that it will not be advantageous to the cause of the working class if they fail to make use of those national capitalists who are willing to serve socialism. It conforms to the interests of the working class to allow these people to take part in production and management in socialist enterprises and to accord them political rights equal to those of the rest of the people in the country. We should explain these things to as many workers and office



employees as possible so that they might understand the wide-ranging changes which have taken place since capitalist enterprises became joint state-private enterprises. At the same time, we should continue to promote to positions of leadership those workers and office employees who have the proper qualifications. Leading personnel in enterprises should see to it that the management of their units is democratic and that, wherever necessary and possible, the working and living conditions of workers and office employees are improved. If these tasks are handled well, the misgivings which some workers and office employees entertain will disappear.

At this point, I wish to deal with some new problems relating to principles of industrial and business management.

First, because we have achieved decisive successes in the socialist transformation of capitalist industry and commerce, certain measures taken by state economic departments in the past few years to restrict capitalist industry and commerce have now become unnecessary. These measures were indispensable and effective at the time. However, there is virtually no need to retain them now. Besides, they had shortcomings even during the period when they were in effect. At present, to continue to carry out these measures would inevitably hamper development of the national economy. The measures I refer to are the following:

(1) It was necessary in the past for state commerce to place orders with capitalist industrial enterprises for processed or manufactured goods and then to purchase and market all of these products. It will still be necessary for state commerce to purchase and market all of the important products of light industry, but indiscriminate application of this method could cause certain factories to pay less attention to the quality of their products than they used to do when they were marketing their own products. Consequently, this would hinder improvement in quality of some manufactured products.

(2) Under conditions whereby the state places orders for processed or manufactured goods and then purchases and markets all of these manufactured products, the relationship of higher to lower-level state wholesale companies is inevitably affected. When orders are placed for processed or manufactured goods, in most cases the goods flow from the higher to the lower levels of state wholesale companies. The result is that the work of placing orders with factories is handled by only a few wholesale companies, hence, shops and stores at lower levels cannot purchase goods directly from the factories in conformity to the needs of consumers. Consequently, the variety of goods and categories of specification ordered from factories by commercial departments have decreased. It is also unavoidable that the distribution of goods by state wholesale companies to the various localities

has in some cases gotten out of step with local needs as regards both quantity and variety. As a result, certain goods are overstocked in some places but are in short supply in other places.

(3) The methods used for controlling markets have placed restrictions on private merchants in purchasing, transporting and marketing goods. These methods make the local supply and marketing cooperatives or state commercial enterprises virtually the sole purchasers of agricultural products and of the products of sideline occupations in the villages. There is no competition whatsoever, and when supply and marketing cooperatives and state commercial enterprises neglect to purchase certain agricultural products or products of sideline occupations or offer too low a price for them, there is a drop in the output of these products.

Second, because the socialist transformation of agriculture, handicrafts and capitalist industry and commerce surged forward too quickly for the detailed guidance and organizational work to keep up with it, some short-term, localized mistakes were made. These mistakes are as follows: (1) When the handicrafts were organized into cooperatives, too much emphasis was laid on amalgamation and on uniform calculation of profits and losses in the units which had been drawn into a cooperative. This has not been beneficial to the management of handicrafts; some handicraft products have deteriorated in quality and fewer varieties are now produced than when handicraftsmen worked on their own. Furthermore, both customers and handicraftsmen themselves have experienced many inconveniences in some of the service-type handicraft businesses since they were brought together and placed under unified management. (2) Cases in which amalgamations were blindly carried out also occurred when the transformation of capitalist industry and commerce was at its height, and this gave rise to the same problems as were generated by ill-considered mergers of handicraft establishments. (3) When organizing agriculture into cooperatives, we did not pay sufficient attention to those sideline occupations which were only suitable for cooperative members to run on a household basis. Coupled with other factors, this has caused a drop in output in some agricultural sideline occupations. Some of these mistakes have been put aright while others still remain to be corrected.

What measures should be adopted now to replace those taken in the past which restricted capitalist industry and commerce and also to effectively rectify mistakes made through lack of experience in the course of socialist transformation?

First, we should alter the purchasing and marketing relationship of commercial to industrial enterprises. The system by which the state commercial departments give factories orders for processed or manufactured goods

should be replaced by a system whereby the factories themselves purchase raw materials and market products. In purchasing products from factories, the commercial departments should adopt the following two methods:

(1) The practice of exclusive purchasing and marketing should be continued for products which have a vital bearing on the national economy and the people's everyday life and for products whose variety is limited, such as cotton yarn, cotton cloth, coal and sugar. This will ensure a regular supply of these commodities and a stable market.

(2) For those consumer goods which exist in a wide variety, the practice of exclusive purchasing and marketing should be gradually discontinued, to be replaced by a system of selective purchasing. That is to say, the practice which we followed prior to the winter of 1953 should, in general, be restored on the new basis of a socialist economy. The state commercial departments will have priority in buying commodities in this category. If certain goods are not selected or left over after the state's selective purchasing, they can be marketed either by the factories themselves or by state commercial departments acting as their commissioned agents. When contracting to supply factories with raw materials, the state commercial departments should not fill orders partly with materials of standard quality and partly with materials of poor quality. With the exception of the raw materials in short supply that can be distributed by the state alone, all other raw materials should be purchased freely by factories. Wholesale companies at higher levels should not allocate commodities for sale to those under their control. Shops at lower levels may purchase as they think fit from any wholesale organization in the country; they may also make purchases directly from factories. Adopting such a system of selective purchasing to govern the relationship of industrial to commercial enterprises as well as that of higher to lower commercial organizations is intended to make factories pay close attention to marketability, improve the quality of their products and increase variety. These new arrangements are also designed to make shops more sensitive to the needs of customers and prevent any reduction in the range of goods offered for sale. Such a system of selective purchasing is also applicable to many handicraft products.

Second, it is essential that a considerable number of industrial and handicraft establishments, agricultural sideline occupations and commercial enterprises should exist as separate units of production under separate management. The tendency to blindly amalgamate and unify management, which results from a one-sided view of things, must be rectified.

Some of the joint state-private factories should be merged and put under unified management, but taking the country as a whole, most of them should



continue to operate separately, either exactly as before or with a few necessary adjustments. The great majority of joint state-private factories manufacture consumer goods. Demand for such goods is varied and constantly changing. If many small factories are merged into larger ones, production will become less responsive to changing conditions in the market. Take cotton prints for example. A small machine dyeing factory may use one pattern for 50-60 bolts of cloth. By constantly changing the patterns used, it is able to satisfy the demand for variety. But this is not the case at large machine dyeing works where each pattern is used for at least 300-500 bolts, where any change in the pattern involves a major change in processing. If we were to merge all our small factories into larger ones, we would not be able to satisfy the diverse and ever-changing demand for consumer goods.

We should remember that before liberation, the number of patterns and varieties of consumer goods was no less than at present and that most factories producing such consumer goods were of small size. Some comrades, in thinking that production can be increased by merging small factories into larger ones, are always bent on amalgamation. We must, of course, have a certain number of large factories, because many of the most important industrial products have to be manufactured on a large scale. However, the increase in production of many consumer goods achieved after a merger of factories is facilitated mainly through decrease in variety and specifications. This "rationalization" cannot meet consumer needs. Therefore, we should not encourage such erroneous amalgamation.

Some handicrafts which involve manufacturing activities can be appropriately amalgamated, but the great majority of the service trades and many of the manufacturing trades should not be amalgamated. In order to put an end to the over-uniformity of products and the drop in quality of services resulting from blind amalgamation and blind implementation of unified management, with profits and losses shared in common by the various units drawn into a cooperative, many big cooperatives must be reorganized into smaller ones. Unified calculation of over-all profits and losses of large cooperative groups must be replaced by another system under which the cooperative teams or individual households themselves shoulder the responsibility for their own profits and losses. Such a change will be suitable not only for the great majority of service trades, but for a large number of manufacturing trades as well. The handicraft industry is generally scattered and local in character; therefore, the primary-level cooperatives should, in the main, do their own purchasing and marketing. The central authorities, the provincial and municipal administrative organs of the handicraft industry and most of the trade group cooperatives should, with respect to principle



and policy, only provide guidance and should not undertake any of the purchasing or marketing themselves.

In the field of commerce, where too many operations have been amalgamated, there should also be appropriate decentralization. The system in which small traders and pedlars ply their separate trades within a cooperative team should be preserved for a long time to come. Certain state wholesale concerns such as department stores and stationers should try to recover personnel with various specializations who were formerly employed in the privately-owned wholesale shops but who have now changed trades. Wholesale shops specializing in a single trade should be set up within state wholesale trading companies, such as some department stores, stationers etc., so that the over-simplified division of labour and low level of professional skill which at present characterize such concerns may be gradually rectified. In order to meet the needs of factories, shops, cultural and educational departments and of other organizations for numerous kinds of imported commodities, the Ministry of Foreign Economic Relations and Trade should organize those import companies which were formerly privately-operated but are now under joint state-private management into import firms specializing in those commodities in which they used to specialize and are therefore well qualified to handle. The Ministry should ask some of the professional personnel who did various kinds of import work in concerns formerly run by foreign merchants to participate in the work of these import firms. The few state import companies which presently monopolize the whole import business but continue to demonstrate poor division of labour and a low level of professional skill cannot meet the needs of society. We must put an end to this state of affairs.

Grain production, cash crops and some sideline occupations in agricultural producers' cooperatives must be managed collectively by the cooperatives, but many sideline occupations should be managed separately by their members. We must alter the state of affairs whereby everything is managed indiscriminately by the cooperative. Only by giving a free hand to members to manage many sideline occupations individually can the output of a variety of products be increased, the needs of the market met and the income of cooperative members raised. In places where cooperative members have a fair amount of land on the average, we should, provided it does not affect the yield of the major farm products of the cooperative, consider whether it is advisable to allow the members to have a bit more land for private use, so that they can grow fodder and other crops for raising pigs and also increase production in sideline occupations.

We are just starting the work of reorganizing capitalist industrial and

commercial enterprises and arranging for collective and decentralized management of industry, commerce and agriculture. We must promptly correct our mistake of focusing attention on centralized production and management to the neglect of dispersed production and management. Otherwise, the defects already evident in production, circulation and service trades will increase.

Third, we must eliminate from our regulations all those provisions governing market control which were meant to restrict the speculative activities of capitalist industry and commerce. In order to control grain, cash crops and other kinds of farm produce and to check the speculative activities of the capitalists, it was necessary for the state to restrict the private merchants' purchases in rural markets. In the future, it will still be necessary for all grain, cash crops and important products of agricultural sideline occupations to be purchased by the state or by supply and marketing cooperatives as agents of the state. However, some of the products of sideline occupations, such as minor local products now purchased in a unified way by local supply and marketing cooperatives, should be allowed to be freely purchased, transported and marketed by state shops, cooperative shops, cooperative groups and supply and marketing cooperatives in different parts of the country. Mutual exclusiveness in purchasing should be prohibited. By doing so, we shall be able to prevent a decrease in turnout of minor local products caused by negligence on the part of the supply and marketing cooperatives or by low prices. This will also assist the free flow of goods. If the demand for a product is too great to satisfy, we should, with the leadership of the local authorities or the Party committees, distribute the available supply according to the needs of various purchasing units. When supply exceeds demand for certain goods and the purchasing agencies are at the point of reducing prices, the supply and marketing cooperatives should purchase the goods in question at their respective regular prices so that the peasant producers will not suffer a loss. All those provisions in the regulations for controlling industry and commerce that are out of step with the present situation should be revised in order to meet the needs of free purchasing, marketing and transportation. In our regulations governing the payment of bank remittances, we must alter rigid restrictions which lead to such absurdities as "not permitting money allocated to buy vinegar to be used to buy soy sauce," or which prevent money remitted to one place from being used in another. All of those regulations drawn up by the departments in charge of tax collection, transportation and mail which were meant to restrict speculative activities in their respective fields should be revised in keeping with changing conditions in order to invigorate commerce.

Fourth, our price policy must be framed to facilitate production. Since March 1950, the government has slightly raised procurement prices for farm produce, and marketing prices for industrial and agricultural products have been generally stable. This price policy was correct and has successfully stimulated growth in industrial and agricultural production. Our procurement prices for major farm produce have been appropriate, though procurement prices for some farm produce were fixed somewhat too low, thus harming production. The latter should be readjusted. As the practice of having the state place orders with enterprises for processed or manufactured goods is replaced by that of allowing factories to purchase raw materials and market their own products, the inequitable fixed procurement prices for some manufactured products will also be adjusted.

Our present price policy contains an element unfavourable to production. That is, in marketing, our idea for stabilizing prices has simply been “to make prices uniform” or “to freeze prices.” As a result, differences in pricing for goods of different quality are very small and high-quality goods are denied high prices. Such a price policy will not encourage improvement in the quality of products; it will only amplify the decrease in the quality of products. In our effort to control the market, we used the method of fixing prices through negotiation, which played its role for a time in preventing private merchants from forcing price increases. Up until March 1950, the country experienced 12 years of currency inflation.<sup>4</sup> It was quite understandable therefore that the people throughout the country are apprehensive about price fluctuations and demand stable prices. But we must note that an inappropriate price policy is bound to impair production. Therefore, we should not become worried if prices rise within certain limits for a period of time in the three situations described below:

(1) Since we will fix prices according to the quality of goods, prices for high-quality products whose production costs are higher will be duly raised. We should understand that deterioration in the quality of goods is responsible for the worst price jumps. For instance, if an electric bulb, otherwise usable for a whole year, now lasts only three months because of its poor quality, this means that the price of the bulb has actually increased fourfold. When the quality of certain consumer goods has been found to deteriorate, we are in effect reducing commodity prices by setting high prices for high-quality goods.

(2) New varieties of consumer goods should be allowed to be sold at somewhat higher prices when they are first placed on the market, as long as consumers are willing to pay such prices. This is necessary because when a product is initially produced, its production cost is high. Once it is being



produced in large quantities and consequently at lower costs, the price may be reduced as appropriate. Since there are few varieties of certain consumer goods, there will be no incentive to produce new varieties if we fail to adopt such a price policy.

(3) With regard to certain minor local products, immediately following the loosening of market control and the introduction of free purchasing, transporting and marketing, purchasing prices are likely to rise, which in turn will cause a corresponding rise in retail prices in cities. It should be noted that if we fail to adopt a policy of free purchasing, transporting and marketing, and instead, allow the local supply and marketing cooperatives or the state trading companies to continue to operate as the sole purchasers of these minor local products, production of many of these items will decrease. If the supply of these local products falls short of urban demand and the government is unable to do anything about it, the people who are in need of such products will then bid up the purchasing prices. The present steep increase in prices of several kinds of medicinal herbs is proof of this. We should be aware that when some of these local products are brought to the market through free purchasing and free trading, any price increases will be a temporary phenomenon only. Moreover, the range of price increases can still be kept under our control. The higher prices will give an impetus to the production of these commodities. When a balance is reached between supply and demand, prices will return to normal levels. With regard to these minor local products, we should adopt a policy of free purchasing and free trading without becoming alarmed at some temporary increases in prices. We must avoid steep price rises due to drops in production. Selling prices must accord with purchasing prices and an overall price stability comes about only when production increases substantially.

People may question whether we can still maintain stable prices after we have adopted the above-mentioned price policy and put into effect the system of selective purchasing of articles for daily use. We believe we can. In the case of such daily necessities as grain and cloth, we shall continue our system of planned purchasing and marketing by the state. The value of the annual output of minor local products to be traded on the open market is no more than 4 billion yuan. The value of output of articles for daily use which fall within the scope of the selective purchasing scheme is approximately 4 billion yuan. Also, the value of handicraft products to be purchased by the state on a selective basis or directly marketed by producers does not exceed 4 billion yuan. The combined output value of these commodities is around 12 billion yuan, which will make up only a little more than one-fourth of the total nationwide turnover in this year's retail trade (46 billion yuan). The

purchasing and marketing of the important commodities, which constitute three-fourths of our domestic trade, will be controlled by the state. It should be noted that before 1954, most of the 4 billion yuan worth of annual output of minor local products and most of the 4 billion yuan worth of the daily necessities produced annually, which will now be brought under the selective purchasing scheme, were handled by private merchants. The 4 billion yuan worth of handicraft products was always sold freely by handicraftsmen themselves until cooperatives were organized for handicrafts in the spring of this year. Since we succeeded in stabilizing prices in the years preceding 1954, why can't we do the same now that all capitalist industry and commerce have come under joint state-private ownership, when the overwhelming majority of handicraftsmen and pedlars have been organized into cooperatives, and while the socialist economy is much stronger? We believe there is absolutely no reason to worry. We can without a doubt keep prices stable.

Fifth, suitable changes should be made in the state's planned control of certain products. Our state plans, both long-term and annual, make provisions for only a few kinds of articles for daily use, handicraft products and minor local products. Apart from these, no detailed plan is made for other commodities in these categories, an arrangement which is appropriate. On the other hand, the state plan does specify the value of their annual output and, in the case of departments manufacturing articles for daily use, targets are set for lower costs, higher labour productivity and for the amount of profits to be handed over to the state treasury. Not all of these targets are based on accurate data; most of them are based only on estimates. Because these targets are set as part of the state plan, which is handed down from one rung of the administrative ladder to another, and because the marketing of a factory's products is done exclusively by the state commercial departments, factories manufacturing articles for daily use often concentrate only on the fulfillment of targets relating to output value and profits, giving insufficient attention to whether or not their products satisfy the needs of consumers. These targets in the state plan should be taken merely as figures for reference. Factories manufacturing articles for daily use should be allowed to make their own plans and operate in light of market conditions without being tied down to figures in the state plan, and the amount of profits to be handed over to the state treasury should be determined by the factories' actual receipts at the end of the year. Provided the enterprises concerned expand production and strictly abide by the state's financial regulations, the state will not suffer any losses if the profits to be handed in to the national treasury are fixed according to actual receipts at the end of the year.

To sum up, by the time socialist transformation has been completed, we

should have adopted correct principles for directing enterprise management and production. That is to say, we must improve the quality of consumer goods and increase variety, expand industrial and agricultural production and improve the work of the service trades. We must avoid deterioration in these areas at all costs. The five measures mentioned above are designed to help convert capitalist industry and commerce as well as individual farming and independent handicrafts to a socialist economy, which will benefit the people.

For some of our commodities, we should use either the method of selective purchasing by state commercial departments or allow the producers to market their own products. We should allow a large number of small factories to continue to operate independently. Many handicraft cooperatives should be split into smaller ones managed by teams or households. Members of agricultural cooperatives should be allowed to take up different kinds of sideline occupations on their own. Market control over minor local products should be loosened. We need not fear a price rise for some commodities within certain limits and for short periods of time. Planned management of some branches of the economy should be modified. Will the above changes bring about the re-emergence of a capitalist free market in our country? No, that will never happen. The adoption of the above-mentioned measures will never lead to the re-emergence of a capitalist market; instead, it will further the growth of a socialist market adapted to the conditions of our country and the needs of the people. The overall setup of our socialist economy will be as follows. In the management of industry and commerce, the mainstay will be state and collective management, to be supplemented to a minor degree by individual management. As regards production planning, the bulk of the country's manufactured and agricultural products will be produced according to the plan; and, at the same time, a certain amount of products should be produced according to changing market conditions within the scope prescribed by the state plan. For industry and agriculture, planned production will be the mainstay, to be supplemented by unregulated production within the scope prescribed by the state plan and in accordance with market fluctuation. Therefore, the market in our country will never be a capitalist free market, but a unified socialist market. In this unified socialist market, the state market is the mainstay; attached to it is a free market under the guidance of the state. This free market, under the guidance of the state, supplements the state market. Therefore, it is a component of the unified socialist market.

Adoption of the above-mentioned measures will help us solve a number of existing problems in the state market. At the same time, however, we

should be aware that these measures may bring forth some new problems which will require further efforts to solve. As we still lack experience in these matters, the measures I have just described must be implemented step by step with caution. We must make steady progress through experimentation.

## **A SOLUTION TO THE SHORT SUPPLY OF PORK AND OTHER NON-STAPLE FOODSTUFFS**

*November 11, 1956*

Pig raising in the country has been on the decline since June 1954, and such a downward trend has not yet come to a full stop. The number of pigs raised nationwide was approximately 60 million in 1950, 70 million in 1951, 80 million in 1952, 90 million in 1953 and 100 million in 1954, representing an increase of 10 million head a year. Following this increase, the number dropped. It dropped to 90 million in June 1955 and to 80 million in June 1956. In the meantime, the average weight of a pig has also dwindled. It was 78.5 kg during the early post-Liberation period; it is 70.5 at present. On July 1 of this year, the State Council issued a directive on the promotion of pig raising, stipulating among other things that “pigs should be owned and raised by individual households with help from the state.” After the directive was issued, the number of pigs rose to some extent. But according to an estimate made by various sources, it seems that it will be impossible to reach next year’s planned figure of 110 million head. There will be some increase in production next year, but no one can foresee how much of an increase there will be.

Because of the decline in pig raising, the supply of pork in large and medium-sized cities has been reduced and there is often no meat to sell in small cities and rural markets. On the other hand, the demand for pork is increasing day by day because more people are now employed and people’s purchasing power in urban and rural areas has been increasing steadily. There is widespread dissatisfaction with the short supply of pork. Meat coupons have been distributed in Guangdong and Shanghai. In Beijing, one can buy only 50 cents, or half a yuan worth of pork at a time. People now have to queue up from midnight until daybreak to buy pork. The problem will become quite serious if people cannot buy pork in the future, even after

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Excerpt from a speech made at the Second Plenary Session of the Eighth CPC Central Committee.



queuing up.

Our export of pork should be reduced. This year, 160,000 tons of pork will be exported. Including the export of live pigs, the figure will amount to about 180,000 tons. The amount of pork exported this year will be 50,000 tons less than last year. We should decrease this figure by 100,000 tons next year. Twenty-five pigs will supply one ton of pork; 100,000 tons of pork is equal to 2.5 million pigs. If we can achieve the above-mentioned reductions and expand pig raising to some extent, the short supply of pork will be relieved slightly next year.

There are three causes for the decrease in pig raising.

First, it has been affected by the state monopoly on purchasing and marketing grain. Since the peasants have less grain at their disposal, fodder is in short supply. The state monopoly on purchasing and marketing grain was initiated in the winter of 1953, while the total number of pigs continued to rise until June 1954. This was because the pigs were raised in 1953 when the peasants had a surplus of grain at their disposal. In the second half of 1954, the number of pigs dropped in areas suffering from famine. In areas where there were good harvests, the number of pigs dropped because the state purchased an additional 3.5 billion kg of grain, which caused a grain shortage. The number of pigs should have increased in 1955, a year of good grain harvests. However, the second half of that year saw a high tide in the agricultural cooperative movement,<sup>5</sup> and many of the agricultural producers' cooperatives had not established essential rules and regulations for raising pigs. As a result, pig raising declined. From the aforesaid situation, we can see the close relationship between grain production and pig raising. The peasants utilize grain in this order of priority: first for men, then for draught animals, then for pigs. When grain is not plentiful, they attend to the needs of men and draught animals first, leaving little grain for pigs. We should not abandon the policy of state monopoly on purchasing and marketing grain. For the time being, we are unable to solve the grain shortage problem. We must consider how to develop pig raising under these circumstances.

Second, the purchasing price of pigs is too low. Does the short supply of grain prevent us from raising pigs? We should not draw such a conclusion. The shortage of grain is not the only cause for the decrease in pig raising. Another factor is that the purchasing price of pigs is too low. After the state enforced the policy of a monopoly on purchasing and marketing grain, the grain shortage caused a short supply of fodder, and when the price of fodder went up, the cost of raising pigs increased. However, the purchasing price was not raised accordingly. In areas with poor transport facilities, the purchasing price was comparatively lower than in other places. It had been

fixed according to the purchasing price in large cities with a deduction for the regional price difference. The more remote from large cities and railway lines a place is located, the lower the purchasing price. Also, pigs are sorted into too many different grades when sold, and these grades and prices are often seen to have been forced down<sup>6</sup> when checked. Therefore, the peasants often suffer losses. Except for areas where the purchasing price has been raised, the purchasing price in many localities does not motivate any growth in pig raising. In order to encourage peasants to secure more fodder by all possible means and save more grain when grain is in short supply for pig raising, we should raise the purchasing price appropriately so that peasants can earn a profit.

Third, prior to the transformation of agriculture into cooperatives, peasants raised pigs to produce fertilizer for farmland. After having joined the agricultural producers' cooperatives, they raise pigs for profit. They sell pig excrement to the cooperatives. This is quite a great change. Unless peasants anticipate appropriate profits, they will not raise pigs. As we have paid little attention to the solution of this problem in the past, the peasants have gained little if any profit from raising pigs.

Since the State Council issued the directive in July this year, more pigs have been raised. But if we fail to settle problems involving fodder and price, this increase will not be continuous.

How can we boost pig raising? While keeping to the policy that most pigs should be raised by individual households and some by public pig farms, we must adopt the following measures.

First, the agricultural producers' cooperatives must supply pig fodder for its members.

Today, pig raisers are unable to resolve the problem of fodder by themselves because the land is owned by the agricultural producers' cooperatives. Pig fodder includes fine fodder and green fodder. Generally speaking, there are three stages in raising pigs. A baby pig takes liquid food. From about two to six months, it is in a period of bony framework construction (called "feeder pig") and fed mainly green fodder and a little fine fodder. From seven to ten months, it is in a period of fattening and needs more fine fodder. The fine fodder amounts to about 60 kg of unprocessed grain. After these three stages, the pig will have grown to a weight of 70-75 kg. Usually it will not grow much over 80 kg.

Pigs have to be fed with rice husk, wheat bran, bean dregs, starch dregs, soya-bean cakes and the like. At the moment, less than 100 million pigs are being raised across the country. According to the requirement of the Second Five-Year Plan,<sup>7</sup> the total number of pigs is expected to grow to 250 million.

Rice husk, wheat bran and bean dregs will be in short supply, so other kinds of fine fodder must be found. Fine fodder such as rice husk and wheat bran can be replaced by sweet potatoes, carrots, potatoes, etc. From grain processing nationwide, we can now obtain 7.5 to 7.9 billion kg of fine rice husk which can feed 30-40 million pigs. The starch dregs, bean dregs and soya-bean cakes feed 30 million pigs. If we want to raise 110 million pigs, we shall have to find other sources of fodder.

It seems to me that the greatest difficulty in raising many more pigs may not lie with fine fodder, but with green fodder. The total amount of rice husk, wheat bran and bean dregs needed to raise a pig is equivalent to around 100 kg of grain. When pig excrement is used to fertilize the farmland, it can increase grain output by 50 kg. A person who eats a lot of meat is likely to save some grain. Calculated at 20 per cent, 10 kg of grain will be saved. In that case, only 40 kg of grain will be needed to raise a pig. Thus, for 100 million pigs, 4 billion kg of grain will be needed. This is workable in light of present grain production. But the production of green fodder cannot be increased enormously in all parts of the country. In the South, which enjoys a warm climate, there is plenty of green fodder, which grows fast and profusely. In the Northeast and the vast mountainous regions in the interior which are scarcely populated, there is also an abundance of green fodder. According to an estimate made by comrades in commercial departments, each pig requires about 1,000 kg of green fodder. If we take into account everything which can be considered as green fodder in all parts of the country, this will support only 110-120 million pigs. If we want to raise the figure to 200 million head, green fodder crops must be grown in an organized manner. The agricultural producers' cooperatives should arrange production of various fodder crops, ensure a rational arrangement of sown areas and plan to sow both green fodder and fine fodder crops. In addition, we should grow high-yielding strains of green and fine fodder crops which are suitable to the locality. Whenever necessary and possible, the agricultural producers' cooperatives should allot to peasants involved in pig raising a little more land so that they can grow fodder crops themselves. Without a proper settlement of the fodder problem, it will be impossible to increase pig raising with any assurance of success.

Second, starch noodle mills, bean-curd mills and oil mills in rural areas and rice mills in small towns should be restored in a planned way.

Running such mills is a rational solution to the fodder problem. People eat bean-curd; pigs eat bean dregs. People eat noodles made from beans or sweet potato starch; pigs eat starch dregs. Restoration of the mills will enable both people and pigs to get what they need. More unhusked rice should be



provided for the peasants so that they can husk the rice themselves and make full use of the husk as fodder.

When mills are restored in rural areas, they will inevitably elbow out the processing factories in large cities. Let's compare the advantages with the disadvantages: The small oil mills in rural areas have a low percentage turnout of cooking oil while the oil presses in large cities have a high percentage. When the former are working, the latter have to hold up production for lack of raw materials or cut back on their operating hours. If cooking oil is pressed in rural areas, all the soya-bean cakes, husk and bran can remain there and can be sold at low prices. Measuring the advantages against the disadvantages, it would seem to be a better idea to move the mills from large cities to rural areas. In rural areas, starch noodle mills, bean-curd mills and cooking oil mills should be restored. It seems that liquor factories should not be restored, because there would not be enough distillers' grains for use as pig fodder. Also, the Ministry of Finance would receive fewer taxes and profits from monopoly sale<sup>8</sup> if liquor factories became too scattered. So this would not be advantageous. We had better keep the rice husk and wheat bran for the pigs, instead of using them to make liquor.

Cooking oil factories in large cities should be maintained where appropriate. They can press cooking oil for export and for use in cities. In order to ensure the quality of rice to be exported, over 0.5 to 1 billion kg of rice should be husked in a few large cities, while rice for the large cities can be supplied by rice mills in small and medium-sized cities. In other words, some of the rice mills in the large cities should move to other cities. Husk and bran should not be transported over long distances; they should be supplied locally to peasants for raising pigs.

Government offices, army units and factories in large and medium-sized cities have plenty of leftovers from their canteens, much of which is never used. They should network with peasants in suburban areas via the municipal governments so as to make use of leftovers; the leftovers can be given to the peasants for raising pigs, and they can in other ways cooperate with the peasants in raising pigs.

Third, the purchasing price of pigs should be raised by an appropriate margin.

Peasants should be assured of receiving a profit of 100-125 kg of unhusked grain for each pig they raise, which is equivalent to the income from one *mu* (one-fifteenth of a hectare) of land in a low-yield area. Such an income will motivate peasants to raise pigs. In the first half of this year, the price of pigs was raised in some localities, but not in other localities. In some localities it was raised by a large margin, and in others by a small

margin. The current price raising should differ in different localities. The price should be raised by a small margin in localities where it has already been raised; there should be no more increase in localities where the price has been raised considerably; and the price should be raised by a larger margin in localities where it has not been raised at all. In short, the peasants should be able to gain a profit of 100-125 kg of unhusked grain for each pig they raise. How is the price calculated? The raising of one pig requires 15 yuan worth of fine fodder (including soya-bean cakes, rice husk and bean dregs) and 1,000 kg of green fodder, which is worth about 15 yuan as well. Generally speaking, a piglet and pig excrement should be priced the same. But the price of a piglet has gone up while the price of pig excrement is comparatively cheap. Therefore, when a peasant sells pig excrement and buys a piglet, he has to pay an additional two yuan. The fodder has to be cooked with firewood, which costs another two yuan. Very often, about 10 per cent of the pigs die of illness. Calculated on average, this represents a loss of two yuan for each pig. All this totals 36 yuan as cost. Therefore, the peasants need to earn 36 yuan (their cost) in addition to 100-125 kg of unprocessed grain, which is worth about 15 yuan. This amounts to 51 yuan. The purchasing price averaged 43 yuan last year, falling short by eight yuan. Each locality should set forth its idea of how much the purchasing price should be raised in light of local conditions. According to what I have just calculated, I assume that peasants will be willing to raise pig because firewood and fodder are available. They only need to do a bit more labour to earn 20 yuan or more for each pig they raise.

The food companies should be prepared to subsidize part of the transport expenses for mountainous and remote areas.

After the purchasing price has been raised, the food companies will have to grant subsidies and the Ministry of Commerce will receive less profit, which will have to be subsidized by the Ministry of Finance in the amount of approximately 380 million yuan a year. How can this problem be solved? At the moment we levy a 13 per cent slaughter tax on the sale of pork. I suggest that the tax be decreased to five per cent. The commercial departments can then reduce the taxes they pay to the local authorities by 240 million yuan. Also, I suggest that the price of 0.5 kg of pork in small cities be raised from 50 cents to 55 cents. If 20 million pigs are sold in a year, an additional income of 100 million yuan can then be obtained. This year, the commercial departments will make a profit of 40 million yuan from their pig business. This sum will also be used as a subsidy. The three items mentioned above total 380 million yuan. Here the two most important measures to be taken are the reduction in tax from 13 per cent to 5 per cent

and the increase of five cents in the price of 0.5 kg of pork in small cities. Raising the price of pork will benefit peasants the most, while those who eat pork will have to spend an additional five cents for 0.5 kg of pork, which is quite a small figure. I would like you comrades to consider if this is feasible. A reduction in the slaughter tax will bring about a decrease in local taxes,<sup>9</sup> but it seems to me that this is something described by the saying—"After all, the wool still comes from the sheep's back." The local authorities can make up for this reduction of income by other means. In short, pig raising will continue to be on the decline and we will have to raise the price in the future if we do not raise the price now.

We should ban the forcing down of grades and prices. The commercial departments should consult the peasants and the agricultural producers' cooperatives in a democratic manner concerning the grading of agricultural products to be purchased. Such a method has been followed in some localities and good results have been achieved. This accords with the mass line. The purchaser can hardly determine the precise weight of the meat before a pig is butchered. He can only estimate the weight. Almost all those who are able to estimate the weight of a pig used to be pig-mongers. These people are well experienced, but the trouble is that they underestimate the grades and weight of pigs. If a pig weighs 70 kg for example, it is estimated at 69 kg, inflicting a loss on the peasant. We should take two measures to deal with these people. First, we should set a limit of tolerance, an upper difference and a lower difference.<sup>10</sup> The estimate will not be considered an error if it is within the limits of tolerance, but it will be counted as an error if it exceeds these limits. Second, we should conduct education among the purchasers, practise supervision by the masses, and institute a system of rewards and penalties.

Whenever a peasant sells a pig, he should be allowed to keep at least 5 to 7.5 kg of pork for his family. It would be unfair if, after raising a pig, he had no meat to eat. We should provide him with meat coupons which can be used all year round.

Fourth, the agricultural producers' cooperatives must in every respect help members who raise pigs.

The relations between the agricultural producers' cooperatives and their members who raise pigs should be handled properly. Who should raise sows? Who should raise boars? Who should raise piglets? Is it better for cooperatives to raise pigs or for peasants to raise them? According to our experience in various localities, pigs should be raised by the cooperatives or by experienced cooperative members. It is up to the agricultural producers' cooperatives to work out these details.

Peasants should charge fair prices when selling pig excrement to agricul-



tural producers' cooperatives and the latter should likewise charge fair prices when distributing fodder to the peasants. Besides, the agricultural producers' cooperatives should allow peasants enough free time in order that they might attend to their pigs. Pig raising does not have to be handled only by men. It can be done by women, old people and children. In short, peasants should be allowed enough time for pig raising.

Fifth, county-level authorities and those below county level should set up committees to provide guidance for pig raising.

Most of the members of these committees should come from agricultural departments, with some others from food companies, grain bureaus, and supply and marketing cooperatives.

Sixth, we must focus on prevention and treatment of disease in pigs.

According to the Ministry of Agriculture, injections can now be utilized for pigs to prevent and treat porcine diseases. Disease prevention and treatment units under the agricultural departments in various localities should join hands with local food companies in trying to find ways to prevent and cure porcine diseases, but in selected localities first, rather than "letting it blossom everywhere" by popularizing these methods prematurely.

Aside from pork, other non-staple foodstuff is also in short supply. In order to ease such a pressing shortage, we should take the following measures.

First, we should cut back on the export of pork and oils. Next year we shall reduce the export of pork by 100,000 tons and that of oils by 70,000 tons. This reduction will be on our own initiative. This is better than waiting until we cannot export the amount stipulated in our contracts with other countries. Although a plan for reducing the export of pork and oils has been decided on, the various localities should transfer to the Central Government the full amount of pork and oils as previously planned.

Second, we should raise more poultry and fish, which consume little or no grain, i.e. chickens, ducks, geese, rabbits and various kinds of fish. I favour raising chickens because they consume less grain than pigs. It is possible to raise a great many chickens. China has a large peasant population. If in each of one hundred million households an additional two chickens are raised, each chicken weighing 0.75 kg, there will be an increase of 150 million kg of chicken meat, which is equivalent to 3.75 million pigs. Over the past few years, the number of chickens has been on the increase because of the shortage of pork. We should develop chicken husbandry still further.

Third, we should regulate the seasonal supply of non-staple foodstuff. The aquatic products industry makes big catches in the busy season. If these cannot be sold in time, they will spoil. If eggs cannot be sold in the busy season, they also will spoil. The seasonal supply should be regulated. There

are both complex and simple types of cold storage. It is feasible to regulate the seasonal supply if we build more cold storage facilities. For example, if 100,0 tons of eggs are purchased during the busy season and kept in storage, when winter comes, the supply of eggs will be improved. There are more than 3 million people in Beijing; the daily supply of eggs amounts to 50 tons. The population of large and medium-sized cities across the country is over 30 million. The amount of eggs needed is ten times the figure for Beijing, that is, 500 tons a day. In addition, cold storage for fruit and fish should also be built so as to help regulate supply. We must be aware that the shortage of non-staple foodstuff will be a fairly long-standing problem.

Fourth, the supply of vegetables in large cities and in industrial and mining areas should be improved. According to the experience of the past few years, the following measures can be taken to solve this problem:

1. Each city should keep an appropriate area, according to its population, sown with vegetables. Under the climatic conditions of Beijing, the output of vegetables from each *mu* of cultivated land will provide for about 30 people; in Guangdong, it provides for more people, but in Harbin it provides for fewer people. The area sown with vegetables should be determined in light of the climatic conditions in different localities. In short, the various localities should work hard to become self-sufficient in vegetables. The central authorities will coordinate this only concerning the variety of vegetables. The prices of vegetables will remain stable by and large so long as the area sown with vegetables is determined in proportion to the population.

2. We should not undertake to purchase all the peasants' vegetables. Instead, we should let the peasants and the vegetable pedlars in the cities carry out direct transactions, removing the intermediaries dealing in non-staple foodstuff who do business with the peasants on the one hand and with government institutions and organizations on the other. With intermediaries, commission charges are higher, a lot of vegetables go bad, and the distinction between good and bad quality vegetables is often obliterated. This situation is improving in various locations, and the situation as a whole is good.

3. Cooperatives formed by vegetable pedlars should be small. For example, a cooperative consisting of several people will be more motivated because it will assume responsibility for profits and losses. If the pedlars are willing to practise decentralized management, they should be allowed to do so.

Since July of this year, many localities have relaxed their rigid management of rural markets and have opened some free markets because agricultural producers' cooperatives in various parts of the country wanted to develop



production and sales of their sideline products.

The opening of minor local product free markets in rural areas has three advantages:

1. The peasants have now resumed production of some of the products they had stopped producing because of rigid market management in the past, and their output is increasing.

2. The flow of goods and materials between town and country has become brisk. In the past, business in a given area was conducted by the locals. Now, people from cities can go to the countryside directly to do business, and people from the countryside can go to the cities on business. Since business between town and country has become brisk, the supply of goods and materials both in towns and in the country is plentiful. In the past we were afraid that after the free markets were opened, everything would be consumed by the country folk, and that the people in large cities would be left with nothing to eat. This is not the case. It is the large cities that have benefited the most from the opening of free markets. Pears from Hebei Province are an example. After the free markets were opened, the peasants there sought to sell their pears to large cities such as Shanghai and Beijing instead of to Tongxian and Baoding, and every transaction they made was large.

3. Opening free markets for minor local products has challenged state-owned commerce and cooperative commerce. Business used to be conducted in designated areas. This practice no longer works. Agricultural producers' cooperatives now send people directly to Shanghai, thus removing the intermediary. When people in Shanghai and Tianjin sell goods, they don't have to go through Hebei Province or Baoding to reach the countryside. They can sell their goods wherever it is convenient for them to do so. This is entirely a matter of convenience in trade. It throws light on the fact that in doing business, government officials cannot do better than the small traders. It also shows that we have too many intermediaries and consequently some people have nothing to do. The purchasing prices of many local products in the countryside are higher than ours, but they are sold at prices lower than ours in cities. The reason is very simple. They follow a direct route from the producer to the customers without going through many intermediaries and, therefore, they earn more money. This is favourable to peasants, people in the cities and merchants. This explains the absolute necessity of getting rid of obstacles to doing business in the administrative network and transforming our conventional setup.

There are also some problems which have cropped up concerning the opening of free markets. The main ones are as follows:

1. No clear distinction has been made between what should be admitted to free markets and what should not. Detailed stipulations have not been worked out for a catalogue of commodities which should or should not be sold in free markets. In some localities, transactions of all kinds of commodities are carried out at free markets. They can even include goods and materials to be purchased exclusively by the state. As a result, we are unable to purchase the goods we try to purchase and we are in danger of failing to fulfill our purchasing plan.

2. After the free markets are opened, a great many people will do their buying there, and this will certainly boost prices. The prices of some commodities will rise and then stabilize when the supply increases. This is appropriate. It takes one to several years to produce some commodities such as tea and tung oil. Therefore, prices for these commodities will rise for one to several years before dropping. The prices of some commodities have risen to an excessive extent, going beyond what is needed to stimulate production. This is inappropriate.

3. There should also be explicit rules defining the scope of business to be done by the agricultural producers' cooperatives.

How should these problems be settled?

First, we should divide current agricultural products into three categories. The first is the category of goods and materials to be purchased exclusively by the state as stipulated by law, such as grain, cotton and crops producing oil. The second category includes goods and materials like tea, silk and tobacco, which are in effect purchased exclusively by the state though this is not stipulated by law. That is, they are purchased exclusively by state-owned commerce and cooperative commerce as entrusted by the state. The third category refers to minor local products traded freely. It seems that some items in the second category should be transferred up to the first category while other items should be transferred down to the free markets. We should decrease the number of items in the second category and increase those in the first and third categories. Why should we enlarge the first category? After the free markets have been opened, the peasants will inquire whether a certain product is to be purchased exclusively by the government. If it is not to be purchased exclusively by the government, they will sell it themselves. In cases where there is no legal stipulation, they will refuse to sell to us and we shall be in danger of failing to purchase necessary industrial materials and export commodities. It is easy for us to forbid merchants to purchase goods and materials from the peasants, but it is rather difficult to forbid the peasants to sell their goods to others. Perhaps we can forbid them to sell their goods locally, but it is difficult to forbid them to sell their goods

to other localities. That is one reason for altering this category. In the past, all the purchased goods of the second category were actually purchased by the state, so they can be transferred back to the first category. This is another reason for changing the category. Of course, the varieties of goods purchased exclusively by the state may be divided into several categories. Some goods, such as grain and cotton, must be sold to us except for a portion the producers are allowed to keep for their own needs. Concerning tobacco and some other goods, we purchase only 70 or 80 per cent; the rest can be sold freely. Concerning scrap iron, scrap rubber and some other goods, no purchasing limits should be set. We should not stipulate how much should be sold to us, but we must insist that these goods be purchased only by the state. Items not included in the first category should be included in the third category as much as possible. However, certain provinces which produce some especially important goods should be allowed to classify these goods in the second category. For example, certain kinds of medicinal herbs in Sichuan Province are not included in the second category nationally, but should be included in this category at the provincial level, and a certain proportion of those herbs should be retained for purchase in that province. Chickens, ducks, geese and eggs can all be included in the third category and the peasants should be allowed to sell these goods freely. This policy is of much benefit. The third category of commodities should be made available to free markets step by step, increasing from a small quantity to a large quantity. We should experiment with this in selected areas and promote it gradually. Many goods are needed for export, by workers and office staff, by peasants and by large cities as well as small cities. That is why the state has to practise centralized distribution. Otherwise, low priority needs might be satisfied while higher priorities are being ignored.

Second, some adjustments should be made in pricing. After the objective of exclusive purchasing for certain products has been achieved by the state, producers should be allowed to sell the remainder of their products at prices equal to our selling prices or slightly higher than our selling prices. Generally speaking, there should be no governmental interference regarding the sale of minor local products in the third category. Local departments should impose ceiling prices only if the price of an item exceeds set limits.

Third, some new stipulations should be worked out for trade done by peasants.

1. Peasants should be allowed to sell what they produce. They can sell these products locally or in distant markets. At present, the peasants want to sell their goods in distant markets. But after a period of time, when we have established wholesale facilities and rationalized routing for selling goods in

distant places, the peasants will probably no longer be motivated to sell their goods in distant places themselves. If our commission charges are not high and if peasants cannot obtain a good profit and sometimes even lose money when selling goods in distant places, they will naturally stop doing so.

In the past, there used to be a division between production and transportation of goods for sale. Such a division of labour was sensible.

2. We should not encourage the agricultural producers' cooperatives to transport goods for sale. We do not encourage them to transport goods for sale produced by others.

3. It is easy for the agricultural producers' cooperatives to obtain the raw materials needed to run subsidiary handicraft industries, but these may adversely affect the handicraft industries in cities and towns. It should be stipulated that if conflicts arise between the handicraft industries run by agricultural producers' cooperatives as subsidiary trades and the handicraft industries run in cities and towns as specialized trades, preferential treatment should be given to the specialized handicraft industries, lest the latter may not be able to survive.

Fourth, we should alter our management of the market. In order to adapt ourselves to the present circumstances, we must change our old methods of using, restricting and transforming capitalist industry and commerce. At present, we should set up transit firms<sup>11</sup> and trading firms to help promote and carry on trade between peasants and small dealers. Management should not be abandoned after the free markets have been opened. Management is still necessary. Market management committees should be organized in towns. Of course, management should not be as inflexible as it was in the past. Management should not be exercised at all when it is not necessary, but it should be exercised wherever it is necessary. The management committees should recruit personnel from various economic departments, especially personnel from agricultural producers' cooperatives, because affairs cannot be handled satisfactorily with the participation of the commercial organizations only and without the participation of the organizations in charge of agricultural production.



## ACCOMPLISHING OUR COMMERCIAL WORK

*November 19, 1956*

During the several days of this meeting, comrades have brought up many problems which boil down to three main issues. First, commercial work is difficult. For example, people who need certain commodities will demand them from you, but at the same time, the commodities that should be supplied to you will not arrive. Like wheat between grindstones, you are subject to pressure from both sides. Second, the organizational work in commerce is chaotic and the relations between commercial departments and other departments are not harmonious. Third, we need to evaluate the work of the past few years. I should like to offer my opinions regarding these issues.

First of all I want to talk about the short supply of commodities. This situation did not just fall out of the sky, but rather, it is a reflection of the nationwide situation in finance, trade and economic development. The shortage of commodities this year is worse than that of the past six years. Is it going to be like this every year from now on? No, it cannot go on this way. If it were to continue to worsen every year, the problem would become serious. It would not simply be a problem concerning commerce or the economic work in a particular year. We would need to reconsider whether or not our policy for economic development is correct. The shortage of commodities this year is due mainly to the shortcomings in our practical work.

It is easy to achieve a superficial budgetary balance. The budget could be “balanced” by excluding some expenditures. For example, this year we did not include agricultural loans of 2.5 billion yuan in the budget because we plan to rely on reserve funds, so it seems to be balanced. It was said that there could be no imbalance in cash receipts and expenditures and that if an excessive amount of currency was in circulation, we could withdraw it by

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Speech at an enlarged meeting on ministerial affairs held by the Ministry of Commerce. At the time, Chen Yun served as Minister of Commerce.

selling more commodities or increasing savings deposits. Actually, this is not an accurate picture. This year we relied on the inventory of commodities to achieve a basic balance in the budget. Compared with the same period last year, the amount of currency now in circulation has increased by one billion yuan. If commodities are not available, the money then becomes reserves in the hands of the people. Therefore, we cannot simply attribute the shortage of commodities to commerce, but we must also attribute it to economic conditions throughout the country, especially the financial situation. This view will enable us to find a solution to the problem.

The following is an analysis of this year's economic situation from the Second Plenary Session of the Eighth Central Committee.<sup>12</sup> First, production is expanding, employment is increasing and people are happy. Second, most investments in economic development are appropriate; only some are inappropriate or overspent. A total of about 2 to 3 billion yuan was overspent, of which about 1.5 billion yuan goes for capital construction, and a smaller amount is used for education, culture, agriculture, forestry and water conservation. Agricultural loans are necessary, but they have not been included in the budget and are slightly excessive. Of the 2.5 billion yuan in agricultural loans, about 1.5 billion yuan is necessary. It is worthwhile to extend some loans, because this assists us in organizing 500 million peasants and avoiding chaos. These, however, should be listed in the budget. If the budget is out of balance, we have to cut down some expenses. There has been no rise in the salaries of workers and office staff for three years, so salaries should be increased this year. This will result in an increase in people's purchasing power, so that demand will exceed supply. Moreover, materials used for production are in short supply. For example, there has not been enough iron and steel stockpiled over the last four to five years to meet the current demand.

In economic development, a rash advance<sup>13</sup> was made in 1953, and there is a similar move again this year, which is a little bit bigger than that in 1953, so the problems that have come to light are more obvious. As long as we profit from the lesson of the first half of this year and do not advance rashly again in future, commodities will no longer be in such short supply.

Comrades might well ask, "How can people be so stupid?" Actually, this is hard to answer. At the beginning of this year, it was said in the Ministry of Commerce that there would be plenty of coal and even that there would be more cloth available. It is very difficult to do practical work without making mistakes. People who formerly worked to eliminate counter-revolutionaries and for land reform all understand this truth. It is easy to write articles opposing both "Left" and right deviations, but it is very

difficult to actually rectify things. This year, while we are experiencing a high tide in socialist transformation, it is difficult to avoid a little bit of rashness in economic development. It is hard to guarantee that the same mistake will not be repeated in future. The economic activity of a society is complex and always changing, and keeping track of this is not as simple as watching movies. We have gained experience from the rash advance during the first half of the year and this can benefit us.

Both economic development and the people's well-being must be considered and kept in balance. It would seem that for quite a long period this balance will, on the whole, be very strained. I think it will be difficult to maintain both a proper economic development and a comfortable life for the people. Our farmland is limited, but the population is large and depends on this land for both food and clothing. If we do not promote economic development, the unemployment and underemployment situation will remain unchanged and the people's purchasing power will remain very low. Naturally, commodities will not be in short supply for a while to come, however, not to promote economic development is out of the question. After carrying out economic development, employment will increase, part of the rural population will move to the cities, and more grain, clothing, and products for consumption will be needed for these people. The people's purchasing power will increase, so commodities will then be in short supply. But the supply must never become so tight that the balance is upset; instead, a strained balance should be maintained. By a "strained balance" we mean a frequent shortage of some goods. For example, pork will often be in short supply. Cotton cloth will still be in short supply even if we increase cotton production by 1.5 million tons, since each person will receive only a little more than 13 metres. We should be mentally prepared for the shortage of goods. Some commodities are now in excess, but this is a temporary phenomenon. For example, a few years ago people said that there was a surplus of paper, but it was used up during this year alone. This is true of hardware and of communications and electrical products. The commercial departments should not simply concentrate on speeding up merchandise turnover and turning over more profits to the state, rashly claiming that commodities are in excess. We should not lay undue emphasis on the speed of circulation, because we are not pedlars or the Yong'an Company,<sup>14</sup> and things are different from what they were in the early days of liberation. We have the responsibility of regulating production with demand and of balancing supply with demand. Therefore, we should also be concerned with necessary reserves, not just with rapid turnover.

It is very important to understand the causes of commodity shortages.

We should not be arguing amongst ourselves without first investigating these causes in doing our overall financial and economic work. If there is only argument, this problem can never be solved, even by a head-breaking fight.

Now I shall talk about how to improve our commercial work.

First, the organizational structure and work methods for commercial activities over the past seven years were appropriate for utilizing, restricting, and transforming private capitalism. Now that the three great transformations<sup>15</sup> have won a decisive victory and fundamental changes have taken place, commercial work should be changed accordingly.

Second, though the old methods of commercial work were advantageous in the struggle against private capitalism, there were still many disadvantages for the people. Our state-owned commerce is a business which really has a touch of monopoly. The secretary of the Shanxi Provincial Party Committee related that an old woman had woven a bit of cotton cloth and then went to sell it at a country market, but a cadre told her that she was violating the law. She was so scared that she ran away, leaving her cotton cloth behind. Of course, the Minister or Vice-Minister of the Ministry of Commerce had not issued an order allowing the cadre to do this, but we must understand that since there are 2.5 million office staff and workers in our commercial departments who come from different classes, many of them have a poor understanding of policy. The leading organs do require that the tasks assigned be accomplished and that the interests of the people be taken into consideration. Easier said than done. As to the purchase of agricultural products in particular, there are many mistakes in our work and the peasants are filled with pent-up anger. The way we have done things has been disadvantageous to peasants. For example, there is a large surplus of grain in the grain depots. This has something to do with the fact that some of our grain-purchasing units deliberately use inaccurate scales when purchasing grain. State-owned commerce is both governmental and commercial, so it is hard for the common people to deal with us. In short, the state-owned commercial departments have done many things which were against the interests of the masses, and many related cases have been reported in the newspapers.

Third, there is too much centralization, hence too little decentralization of power. This state of affairs has taken shape over the years. After liberation, we required centralization of power in order to rehabilitate the economy quickly and unify finance and economics. We also needed to centralize in order to struggle against private capitalism. However, the “thread” of the commercial system is just a thread as for making clothes, and is not as strong as a cement post. So far as commercial work is concerned, the Party committees and governments at all levels must handle the important matters.



I think that there can be “great order across the land” if, in each county, the deputy secretary of the county Party committee takes charge of the commercial work and the county Party committee discusses it often. Taigu County in Shanxi Province experimented with placing four companies under the county Party committee; 40 per cent of the profit was turned over to the state, 50 per cent belonged to local government, and 10 per cent was retained by the enterprises. Thus, the county Party committee actively took charge of commercial work; many stockpiled commodities were sold off and farm products which had not been available for purchase from peasants became available. In one year the earnings in the county increased by 100,000 yuan, whereas there had been only 12,000 yuan in reserve funds the year before. If each county receives 100,000 yuan in revenue a year, the 2,000 counties in the country can acquire 200 million yuan; but if each county receives only 50,000 yuan, this will represent only 100 million yuan for the whole country. If the county has the interest as well as the power to do commercial work, commercial problems can largely be solved. At present, the whole burden is placed on our shoulders. We are not able to perceive the problems at lower levels, and so they cannot be solved. What is good about this? Unifying financial and economic work and carrying out a planned economy call for centralization. However, centralization should not be overdone, and we must consider the fact that our country has a large population and vast territory, and that conditions differ throughout the country. We often say that policies should be adapted to local conditions. Who should do this? For the most part it should be the county Party committees.

Fourth, we should work on the relationship between leaders of the commercial departments and the masses. The minister, bureau directors, and managers can handle only important matters; the concrete work still depends on 2.5 million workers and office staff. We can handle affairs well only by relying on these people and bringing their initiative into full play. We definitely cannot do commercial work well if we believe they know nothing except how to obey orders, like abacus beads which move only after being touched. At the Party’s Eighth National Congress,<sup>1</sup> a comrade suggested that workers’ representative conferences should have the power to dismiss a factory director or manager. I think that is a good suggestion. Although the supervisory work is important, it is insufficient to rely only on supervisory work. We must allow all the people to speak out and take the initiative. In order to develop democracy, we can utilize workers’ representative conferences and sales clerks’ representative conferences. Many important matters should be discussed at these conferences. Suggestions can be made to the

higher authorities for the dismissal of factory directors or managers. Our Party has been following the mass line. We should stimulate the initiative of the masses and rely on them in all our work. After cutting off relations with the Soviet Union in 1948, Yugoslavia had no alternative but to allow workers to manage factories, which played a positive role in maintaining production. In the early period of the Anti-Japanese War, He Yingqin<sup>16</sup> would not provide us with funding. Chairman Mao offered us two options: one was disbandment, the other was production. As a result, we found a way out. We launched a great production campaign,<sup>17</sup> and we all had enough food to eat and enough clothes to wear. From this we can see that there is always a way out if we rely on the masses. On condition that national plans and centralization are not abandoned, what is wrong with the establishment of workers' councils? As long as the 2.5 million people in commercial departments become organized and everybody has a sense of responsibility, we need not fear "great chaos across the land." This is a major political issue. The so-called exclusive concern with commercial work by commercial departments means not to rely on the masses or the local Party committees. Mass work in the commercial departments was very poor. Strengthening ideological and political work is an important issue which should be frequently discussed at meetings on ministerial affairs.

In short, commercial departments should handle well the relationship between the masses and their leaders as well as their relationship with local Party committees and governments. Our policy is nothing more than handling each of these relationships properly. I believe that if we improve our work according to the methods mentioned above, we can do our commercial work well.

Last, I will talk about evaluation of achievements and shortcomings in commercial departments.

I think that in seven years of commercial work there have been mistakes as well as achievements, but the achievements predominate. We were successful in promoting production, stabilizing markets and in transforming private capitalism. As for the shortcomings and mistakes, some were created by objective causes. For example, to carry out socialist transformation of private capitalism, we should have had our present organizational structure. Of course, some errors were created by a lack of effort. For example, pigs, both for local sale and export, are divided into four grades. This gives purchasing personnel one more opportunity to unfairly lower the grade and price.<sup>6</sup> As to the shortcomings in the transformation of capitalism, some were caused by poor work performance. In evaluating achievements and shortcomings, I think we should make several distinctions. First, we affirm that our achieve-

ments predominate. Second, some of the shortcomings and mistakes were caused by objective factors, and some were caused by our poor work performance. Third, both higher and lower levels are responsible for shortcomings and mistakes, but it is mainly the Ministry of Commerce at the central level that should be held responsible. Since many policies and methods were decided at higher levels, the leading organs should be held responsible. Of course, I, too, am responsible. It is understandable that comrades from lower levels are filled with anger and want to express it here. People should be tolerant of this.

Now, I will offer my opinion concerning being scolded. Some people say that in commercial work, you get scolded every day. It seems to me that there is an advantageous side as well as a disadvantageous side with regard to being criticized. It makes it easy to correct a mistake if somebody criticizes you soon after the mistake is made. If people shout “long live” every day, then when a mistake is made, it is going to be a serious one. There are many people who keep finding fault with commercial work, but this can motivate us to improve our work. Failure is the mother of success. If we have made mistakes, we correct them; then we can make progress continuously. If there were nobody pointing out mistakes in our work for five years, we would suffer a reversal in the sixth year. That would be terrible. For example, during the construction of the Yangtze River Bridge in Wuhan, if problems had not been pointed out and we had just been shouting “long live,” we would have been building on a false foundation and it would have been disastrous if the bridge collapsed suddenly. The Baocheng Railroad has been built, but now it caves in all the time just because we kept shouting “long live” when it was under construction.

We should not bring up our achievements all the time. It is enough to mention them several times a year. Achievements are obvious; we do not need to mention them every day. However, we should pay continuous attention to shortcomings and mistakes. Our commercial work is being observed by 600 million people every day. They criticize it and expose problems. What is bad about this? We are not capitalists; we are not bureaucrats; we work for the revolutionary cause. Listening to criticism daily will help us improve our work. This will be very beneficial to our revolutionary cause. In the past, we engaged in commerce in order to overthrow reactionaries, achieve victory in the revolution and establish a people’s regime. Now we are working to stabilize the people’s economic endeavours and to benefit socialist construction. We are merchants. However, we are not ordinary merchants, but rather, revolutionaries engaging in commercial work. We should stand on a higher plane and see farther ahead than ordinary

merchants. We must stand on the roof; we cannot stay in the basement.

In commercial work we deal with people every day, providing food, clothing, daily necessities, cooking oil, salt, fuel and rice. Do not look down on these things; these items are important to the people. Our Communist Party must be concerned about the immediate interests of the people every day. People need to eat, and they cannot survive only on a diet of Marxism-Leninism every day. People will starve if they do not eat for even a single day. The Yangtze River Bridge will be a great accomplishment; it is very necessary to build it. But we cannot say that commerce, which concerns the daily lives of 600 million people, is a small matter or is unimportant.

It is better for us to be criticized regularly, whenever we make mistakes. If we do not receive criticism at ordinary moments, there will always be the day when we will receive a severe criticism. Stalin's work is now rated as 70 per cent achievements and 30 per cent mistakes. At the time when he was alive, he received no criticism. But once the criticism started, even his portrait was removed from public places. This is not a good way of doing things.

When we do our work, we should spend more than 90 per cent of the time researching situations and less than 10 per cent formulating policies. Every correct policy is based on scientific analysis of an actual situation. Some comrades do the opposite: They are usually busy deciding this or that, but they seldom investigate and study actual conditions. This method of work must be changed. We must understand that one-sidedness always results from busying ourselves with policy decisions instead of investigating the facts.



## **WHY WE ADOPTED A POLICY OF REDEMPTION TOWARDS CAPITALIST ENTERPRISES**

November 28, 1956

January of this year saw the conversion of capitalist industrial and commercial enterprises into joint state-private enterprises on a trade-by-trade basis. This was a great victory in our efforts to transform capitalist enterprises into socialist ones and it was a victory for the working class as well as for the Chinese people. More than 90 per cent of Chinese workers were very happy about the conversion and they carried out an emulation drive to celebrate this great victory. Now I am going to discuss the following three questions.

### **I. WHY WE ADOPT A POLICY OF REDEMPTION TOWARDS CAPITALIST ENTERPRISES**

After the nationwide victory in 1949, the People's Government adopted different policies concerning national capitalist enterprises and bureaucrat-capitalist enterprises. With reference to the national capitalist enterprises we adopted a policy of redemption and a policy of utilization, restriction and transformation, rather than a policy of confiscation. Before the conversion of private enterprises into joint state-private enterprises by whole trades, we allowed private enterprises to earn profits. Redemption took the form of distribution of profits, portioning out to the capitalists a percentage of the profits ("giving each of the four horses a share of the fodder").<sup>18</sup> After the conversion, redemption took the form of payment of a fixed rate of interest<sup>3</sup> to national capitalists. Furthermore, with regard to capitalists and their representatives, they were offered jobs by the government.

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Speech at the National Grass-roots Cadres Conference of Trade Unions in Joint State-Private Enterprises.

Why did we adopt such a policy? There are four reasons.

1. This policy will assist in rehabilitating the national economy.

Most capitalist enterprises were engaged in light industry in the production of daily necessities. Regular production of daily necessities is of vital importance in the development of the national economy and for the well-being of the people. If we have adequate manufactured items for everyday use to exchange for farm products with peasants, the worker-peasant alliance will be strengthened; if we have enough manufactured products for daily use and farm products, the people's demands can be met and market prices will be stable. In the period of national economic rehabilitation, China had a fairly adequate supply of consumer goods. If the government had adopted a policy of confiscation in 1949, this would have led to disruption in the operation of capitalist enterprises, suspension or reduction of production and unemployment. As a result, we would have found ourselves in a passive position politically and the country would have experienced economic chaos. We should not confiscate national capitalist enterprises as we did with bureaucrat-capitalist enterprises. The reason for this is that the national bourgeoisie had a dual character. On the one hand, they had conflicts with imperialism, feudalism and bureaucrat-capitalism, and so, under certain conditions, they were willing to take part in the struggle against imperialism, feudalism and the reactionary rule of the Kuomintang. But on the other hand, they often tended to vacillate and compromise in this struggle. During the rehabilitation period, they took an active part in the struggle to aid Korea and resist U.S. aggression.<sup>19</sup> During the land reform,<sup>20</sup> they did not oppose the Land Law<sup>21</sup> which was unanimously adopted by the Chinese People's Political Consultative Conference. If we had failed to treat the national bourgeoisie differently than we treat the bureaucrat bourgeoisie and had failed to unite with the national bourgeoisie, we would have been forced to wage struggles both at home and abroad, and in both urban and rural areas. This would have added heavily to difficulties in economic recovery, the war to aid Korea and resist U.S. aggression and the land reform. Therefore, we should unite with the national bourgeoisie. Prior to the struggle against the "five evils,"<sup>22</sup> the national bourgeoisie launched a furious attack on us, but through the struggle against the "five evils," we educated and united with the majority of capitalists who were willing to abide by law. Experiences gained in the rehabilitation period show that it was beneficial in recovering the economy for the People's Government to adopt a policy of redemption, that is, a policy of utilization, restriction and transformation towards the national capitalist enterprises instead of a policy of confiscation.

2. It is necessary and is in the interest of the state and the people to pay

the national capitalists a fixed annual interest of 5 per cent on their total assessed capital for a period of time following the conversion of capitalist industrial and commercial enterprises into joint state-private ones.

The national capitalists passed the test of fighting against imperialists and Kuomintang reactionaries and did not oppose land reform. They joined in our efforts in the war to resist U.S. aggression and aid Korea and in economic rehabilitation. They passed the test of socialist transformation, i.e. the conversion of capitalist industrial and commercial enterprises into joint state-private ones on a trade-by-trade basis last January. Should we exclude them? Of course not; nor should we confiscate their enterprises. The government decided to pay the national capitalists a fixed annual interest of 5 per cent on their total assessed capital for a certain period of time. This is a correct policy regarding capitalists, the state and the people. We will pay the capitalists a fixed interest for a certain period of time because it will take time for them to change their way of life. But we will not pay them higher interest because this will be helpful in arousing the motivation of workers to produce. Furthermore, payment of this fixed interest to capitalists will make it possible for the state to reorganize privately owned enterprises, which will be beneficial to both the state and the people. Then comes another question. How much fixed interest should the state pay the capitalists? In comparison with their total assessed capital, the amount of fixed interest that the state should pay the capitalists is relatively small. The total assessed capital of the capitalists in industry and commerce is estimated at 2.2 billion yuan. If we pay them annually a fixed rate of interest of 5 per cent, this will amount to 110 million to 120 million yuan annually. How many years should we pay them this interest? As Premier Zhou Enlai stated in his Report on the Proposals for the Second Five-Year Plan for National Economic Development,<sup>7</sup> which was delivered at the Eighth National Congress of the CPC,<sup>1</sup> the socialist transformation should be completed during the period of the Second Five-Year Plan when ownership by all the people will have been expanded. We have not decided upon a specific number of years to pay the fixed rate of interest to the capitalists. It will depend on our development in various fields. In any case, we will pay them about 100 million yuan annually and this should amount to only several hundred million yuan over several years, which is not a very large sum. This is a good method by which we can unite capitalists and their intellectuals with us and arouse their motivation for socialist construction.

Certain people ask why the high salaries of the capitalists and their representatives remain unchanged and why we should offer jobs to those capitalists and their representatives who are not very capable. We think that

we should allow all personnel who worked in capitalist enterprises to continue to work and to make a living. We will pay them a fixed interest for only a few years and they will have to make a living on their own in the future. Actually, only a few working personnel in privately run enterprises enjoy salaries which are higher than those of people who hold similar posts in state enterprises. Most of the privately run enterprises are small or medium-sized. The salaries of most capitalists and their representatives in these enterprises are not higher and sometimes even lower than the salaries of those working in state enterprises. There are just a few capitalists and their representatives who are incompetent but receive a high salary. This can be understood if one comprehends our redemption policy.

Some people ask why the state returned the additional assets the capitalists handed over so quickly, and why it lost no time in paying fixed interest to the capitalists. Concerning the handing over to the state of some additional assets by the capitalists, there were two different cases: some of the capitalists handed over additional assets to the state voluntarily while others were reluctant to do so. Of the additional assets, most were outstanding accounts and there were also some houses, clothes and even coffins, but not much cash. The total additional assets were valued at about 2 million yuan, a very small amount. The government decided to accept a portion of these assets as payments of debts to the state by the capitalists, and to return all the rest of these assets to the capitalists unless they refused to take these back. If we had failed to do that, the capitalists would have become restless and would have complained that the state once again made a fortune. Since the total value of these additional assets was small, and since it was difficult for us to dispose of these assets, we thought it would be the correct thing to return these to the capitalists as soon as possible. The reason why we quickly paid capitalists interest is that it was easy for us to calculate, according to their share certificates, the amount of interest to pay them and, moreover, at that time, the capitalists needed money to buy government bonds.

As a result of paying a fixed rate of interest to capitalists, the majority of capitalists and their representatives are working hard and do not oppose the socialist transformation. Only a small number of them are discontented with it. This situation is beneficial to both the state and the people.

3. Most capitalists and their representatives possess production technology and managerial expertise. Capitalists, some of whom are intellectuals, can be of much use in socialist construction. We cannot unite, educate and transform them unless we adopt a policy of redemption towards them.

The labour of our workers is the most important thing, but they must have technology. Modern production requires technology. At present, the



working class is comprised of only a very small number of technical personnel, whereas the national bourgeoisie, including capitalists and intellectuals, is a class rich in modern know-how. This situation will not change in the near future and so we need to enlist these people in socialist construction. True, some capitalists and their representatives are incompetent, but most of them possess production technology and operational and managerial expertise. If we had adopted a policy of confiscation instead of one of redemption towards them, they would not have worked so enthusiastically as they are now doing for socialist construction. If we do not utilize them in our economic development, our technological level cannot be raised and production and management will not improve because we cannot afford to invite an equivalent number of foreign experts to assist us in our work.

4. We are building socialism in a vast nation of 600 million people, which demands that we work correctly and prudently.

China is a big but economically backward country in the socialist camp and has a population comprising two-thirds of the entire population of the camp. Therefore, whether or not we can do our work correctly and prudently has a vital bearing on the overall situation in the whole world. The cooperative transformation of agriculture and handicrafts and the socialist transformation of capitalist industrial and commercial enterprises are an extremely complicated and sharp struggle involving all of the Chinese people. Any mistake in this work will lead to chaos in the socialist transformation. We can say that the successful socialist transformation in China will be beneficial to the world socialist cause. The capitalist countries closely follow the progress of our socialist transformation, and foreign capitalists who come to China are always investigating the situation of the capitalists in China. So it is of great importance to do a good job in peacefully transforming capitalist enterprises.

The four reasons mentioned above show that the policy of redemption is beneficial to the state, the people as well as the working class. So, I suggest that we publicize the policy of redemption in all the joint state-private enterprises in China. Why? There are two reasons for this. First, many workers and cadres in grass-roots trade unions do not have a clear understanding of the policy of redemption. Some of them have said, "We understand the policy of redemption, but we cannot understand some of methods taken to implement it." Actually, they do not understand the policy. Others have complained that it is unfair that the exploiters are paid fixed interest while receiving the same salary as before. It is of course unfair to take the interests of only one sector into consideration, but, if one keeps overall interests in mind and takes into consideration of the above-mentioned reasons, the policy

of redemption should be considered as acceptable. We have attained social stability in the socialist transformation throughout the country by paying the capitalists fixed interest of only a little over 100 million yuan annually, which is of vital importance. If we had failed to carry out the policy of redemption towards capitalists, there would have been chaos, which would have brought about greater losses for us, and this would have been no good for the workers or for the people. Second, whether or not there can be amicable relations between workers on the one hand and capitalists and their representatives on the other, whether technological personnel can be united with our cause and whether capitalists and their representatives can be remoulded into labourers depend on the workers. Workers should bear the main responsibility in this regard though capitalists and their representatives and state representatives should also do their share in those efforts. The remoulding of the capitalists and their representatives should be carried out in actual work within enterprises, not outside the factories. If workers fail to understand the need to implement the policy of redemption, they will not assume responsibility for uniting and educating capitalists and their representatives.

II. MANAGEMENT COMMITTEES  
WITH THE PARTICIPATION OF WORKERS  
SHOULD BE RE-ESTABLISHED IN JOINT STATE-PRIVATE  
ENTERPRISES AND THEY SHOULD COOPERATE  
WITH STATE REPRESENTATIVES

Before the conversion of private enterprises into joint state-private ones, trade unions and committees for increasing production and practising economy were the leading bodies of enterprises and played an important role in promoting production and in the socialist transformation. After the conversion, state representatives were dispatched to joint state-private enterprises and they managed the enterprises in place of trade unions. At that time, we failed to stress that the management committees should be retained and that state representatives should allow trade unions and committees for increasing production and practising economy to exercise power. In addition, we did poorly in promoting workers to leading positions in enterprises, which was a major mistake and which should now be rectified. Workers' discontent with this state of affairs is justifiable. Therefore, we should re-establish management committees with participation of workers. This will effectively assist us

in relying on the masses through arousing their motivation to run enterprises well.

The management committees to be re-established should cooperate with state representatives. Before private enterprises were transformed into joint state-private ones, there were no state representatives and trade unions supervised capitalists and their agents. Currently, state representatives have been dispatched to joint state-private enterprises. Management committees should cooperate with them in managing enterprises. We must make it clear that management committees should enjoy certain powers. It is up to the trade unions and the government to formulate regulations for management committees. Moreover, leaders of trade unions and some workers with appropriate qualifications should be channeled into leading positions to serve as factory directors, deputy factory directors, managers and deputy managers.

Some trade union cadres have complaints about state representatives. The great majority of the latter have done a good job and only a small number of them have made mistakes in their work. The majority of them were selected from workers and staff and trade unions cadres in big cities. If they have made mistakes, they can be educated to correct the mistakes. It is inevitable that they will make mistakes because they are inexperienced, because experienced workers and staff have left the factories for new jobs and, moreover, because the transformation of capitalist industrial and commercial enterprises is a very complicated task to be achieved under time constraints. The state representatives are sometimes criticized by capitalists and their representatives, by workers and staff and by specialized companies within enterprises, and they find themselves in a very difficult position in doing their work. Trade unions should assist them. The majority of state representatives who have made mistakes should continue working in enterprises after they have been criticized, and only a small number who have proven themselves to be unqualified should be assigned to other jobs.

### III. IT IS NECESSARY TO IMPROVE THE WELL-BEING OF THE WORKERS AND STAFF IN JOINT STATE-PRIVATE ENTERPRISES, BUT THIS MUST BE DONE GRADUALLY

Most joint state-private enterprises are small. The conditions for workers and facilities in these small enterprises are naturally poorer than those in large ones. This is a long-standing problem. The merging of factories has added to these difficulties because of inadequate workshops, no canteens and lack

of living quarters and toilets for workers and staff.

The government is to increase the wages of workers and staff of joint state-private enterprises whose wages are lower than the wages of those working in state enterprises. If their wages are higher than the wages of those working in state enterprises, their wages should remain unchanged. This readjustment in wages will be conducted in two steps. It is impossible for us to give anyone a big increase in wage in any single year. With regard to work facilities, we will try hard to improve them, but we cannot improve all the poor facilities at one stroke. It is inconceivable that all our small factories could be developed into big ones with large workshops or that all small shops could become big ones.

An improvement in working conditions and in the well-being of workers in small factories and small shops calls for our efforts over a long period of time. Conditions in many state enterprises are not very good although they have now been in existence for seven years. An improvement in the well-being of workers and staff is necessary, but this can only be accomplished step by step and based on the expansion in the scale of national construction, expanded production and improved management. We are convinced that we will certainly make progress but we cannot make too rapid progress. The past seven years has demonstrated that we can make progress. However, we cannot advance too quickly because our economy is behind the developed countries by 100 years.

Through the efforts of three five-year plans, industrialization will, in the main, be realized in our country. If we want to catch up with the most industrialized countries, we should be prepared to work hard for another 50 years or even longer. Fifteen to 50 years is a rather long period of time from a personal point of view, but not so long a period from the viewpoint of the cause of socialist construction. The revolutionary martyrs sacrificed their lives for the people and for future generations; similarly, today we are bearing hardships for the people and for future generations. Our working class should hold the high aspiration of catching up with the developed countries and we should concentrate all our efforts on the industrialization of China.



# **STRENGTHENING THE POLITICAL OUTLOOK, MASS OUTLOOK AND PRODUCTION OUTLOOK ON COMMERCIAL WORK**

*December 1956-January 1957*

## **I**

Since we are engaged in socialist commerce, we cannot proceed without a political outlook, a mass outlook and a production outlook. Commerce, right down to selling chickens and eggs, is of political significance. This is because the success or failure of our commercial work has a direct bearing on the immediate needs of 600 million people and determines whether the broad masses in urban and rural areas will be satisfied with us.

(Excerpt from a speech delivered at a meeting held by the  
Leading Party Members' Group of the Ministry of  
Commerce in December 1956)

## **II**

The days are gone when people who were engaged in commerce cared only about marketing to the neglect of production. As to the present shortage of iron, steel and paper, it is not enough simply to note the shortage itself; attention must be paid to the national plan and to production, which are of paramount importance, with commerce coming second. We must take this matter seriously; this is what distinguishes us from ordinary merchants.

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Excerpts from two speeches and main points of another.

(Excerpt from a speech delivered at a regular working  
meeting of the Fifth Office of the State Council on  
December 24, 1956)

### III

If the leading comrades in commercial departments are busy all day long with concrete economic work, but pay insufficient attention to ideological and political work, they are very likely to get bogged down in routine matters. If they do not change this tendency, they will become shortsighted — something we should be on guard against.

I suggest that in our work we put forth the slogan “70 per cent economics, 30 per cent politics.” Otherwise we cannot avoid working blindly. If we do not pay attention to this problem, we will be making a mistake in principle regarding the methods of leadership. What about having it the other way around, “30 per cent economics, 70 per cent politics?” That will not do either. As the leader of the Central Financial and Economic Commission,<sup>23</sup> I have not paid enough attention to this problem since coming to Beijing. If we do not put forward the slogan “70 per cent economics, 30 per cent politics,” political work will always be squeezed out by business. If we persevere in following “70 per cent economics, 30 per cent politics,” it may be possible to ensure that no major mistakes will be made in our work. Otherwise, we are very likely to become “targets of struggle.” It seems to me that we must “struggle” and “make a breakthrough” in this matter.

It is one of the most important tasks for the minister and vice ministers to direct study programmes. The Fifth Office of the State Council<sup>24</sup> and the Ministry of Commerce should take the lead in this regard, and the lower levels will follow suit. Study should be conducted as one of our major tasks and as an essential aspect of our guidance work. This should become the rule. Leading cadres cannot be considered to have fulfilled their responsibilities if they fail in this respect.

Our study should include the following. First, we review our experience. The importance of including this in study is self-evident. Second, we review major current events and political issues. Third, we study some important theoretical questions. In theoretical study, the most important thing is to arrive at a correct method of thinking. Therefore, philosophy should be taken up first so as to learn a method of thinking for approaching problems correctly. Ignorance of dialectic materialism will always cause one to make

mistakes. Since you are experienced, the difficulty lies in your method of thinking. If your method of thinking is incorrect, your perception cannot be raised to a higher level. This is of vital importance for comrades working at any post and in solving any problem. In addition, we should rely on the masses. We should consult the masses whenever we meet a knotty problem. One cannot qualify as a Marxist without such a practice. In our work, relying on our organization but mainly on the masses should be our motto.

Our method of observing, analysing and solving problems is dialectic materialism. This is what Chairman Mao termed “seeking truth from facts” and “proceeding from actual conditions.” Here the question is whether to start from a particular practice or from comprehensive practice. Some comrades do not take the time to familiarize themselves with the actual situation and to get to the essence of things, but they assume something as a matter of course, make comments, and then jump to conclusions on the basis of the phenomena that appear to them. This is quite deleterious to progress. Therefore, it is of vital importance to have a comprehensive and clear view of the actual situation and then decide on policies and solve problems. The difficulty lies in correctly ascertaining the situation, not in deciding policies. Once the situation has been ascertained, it is not difficult to derive policies. More than 90 per cent of our time should be devoted to understanding a situation and less than ten per cent to making policies. Only policies derived in this way are established on a solid foundation. For example, if we try to solve the problem of the short supply of pork and increase production of pigs by adopting a method derived at the last moment, without first considering the sources of feed, the piglets, pricing and whether the masses are willing to raise pigs, the solution will never work well.

Since one person’s point of view invariably has its limitations, collective discussions and exchanges of opinion are important in achieving a more comprehensive understanding. Those who are ready to use their heads first and then air sound opinions are good comrades. Those who are not really concerned with the major problems arising in their work and who do not express their views, but only think of producing more Five-Bat cloth<sup>25</sup> every day, do not measure up. In an exchange of views, one must never get angry with those who hold different opinions. Their views, right or wrong, are beneficial. The correct view grows out of negating the incorrect. During the Anti-Japanese War, Chairman Mao came to the decision to carry on a protracted war by refuting both the theory of national subjugation and that of quick victory. On the issue of a united front, he arrived at the proposition of “unity combined with struggle” by negating the view of “all through unity” as well as that of “all through struggle.” Presumably, Chairman Mao

might not have reached this mature level of reasoning without such negative teachers as Wang Ming<sup>26</sup> and Zhang Guotao.<sup>27</sup> Differing views should be compared. All correct analyses come by way of comparison. This is the “touchstone” method. A clear idea of the essence of things can be obtained through comparison. Chairman Mao, in his explanation of New Democracy, compares it both with capitalism and socialism, which helps to make the term quite clear. Understanding is not accomplished at one stroke; instead, it calls for repeated elaboration in which it is important to find the “opposing position.” If none materializes, one should be hypothesized. Chairman Mao himself postulated many propositions that he repudiated if others did not, and then started all over again. All these are methods for comprehensive understanding of objective reality.

(Main points of the speech delivered at a meeting of the leading Party members' group of the Ministry of Commerce on January 9, 1957)



## **MAKING THE SCALE OF DEVELOPMENT COMMENSURATE WITH THE NATIONAL STRENGTH**

*January 18, 1957*

I should like to offer some ideas on financial and economic matters, namely, first, the financial and economic conditions in 1956; second, how to solve the current financial and economic problems; third, the need to make the scale of development conform to the national strength; and fourth, the need for proportional relationships in the national economy.

### **FINANCIAL AND ECONOMIC CONDITIONS IN 1956**

In 1956, our country made great achievements in both socialist transformation and socialist construction. The socialist transformation of agriculture, handicrafts and capitalist industry and commerce was a complete success. In the socialist transformation and construction, workers, peasants, government employees and teachers throughout the country were motivated to launch an extensive work emulation campaign in which a large number of model workers emerged. Intellectuals engaged in scientific research joined in the scientific planning of many projects and showed great enthusiasm. In the countryside, because peasants worked harder after cooperativization, the output of grain and other crops (except cotton) exceeded the output in 1955, a bumper harvest year, even though there were more natural calamities in 1956 than in 1954. The gross value of industrial output and the amount invested in capital construction also increased greatly. The target for the total value of industrial production in the First Five-Year Plan<sup>28</sup> was fulfilled a year

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Speech delivered at a meeting of Party committee secretaries from each province, autonomous region and municipality directly under the Central Government. Comrade Chen Yun was then the leader of the Central Five-Member Group for Economic Work.

ahead of time. The total investment in capital construction of the last four years fulfilled over 80 per cent of the target set for the Five-Year Plan. This indicates major achievements in economic development in 1956.

However, some mistakes were made in our financial and economic work in 1956, mainly manifested as follows.

1. We overspent about 3 billion yuan on finance and credit funds. The 3 billion yuan includes the following three items. The first is more than 1.5 billion yuan overspent on capital construction investment. Capital construction investment was for the most part made appropriately, but some of the money used in each department of the Central Government and in each locality was spent inappropriately. The second is 600 to 700 million yuan overspent on wages. It was necessary to increase wages in 1956, but the problem was that wages increased excessively. Last year, we employed an additional one million personnel in various fields; the original planned figure was 840,000. This does not include personnel in institutions of higher learning, polytechnic schools, technical schools and skilled-worker training classes. Some wages were increased too much, promotions in many government departments and enterprises were too excessive and some bonus systems were inappropriate. These three items together with the additional salaries amounted to 600 to 700 million yuan. The third is the excessive loans that we extended. We overspent more than 500 million yuan on agricultural and other loans. Altogether, the overspending in capital construction, wages and loans totalled approximately 3 billion yuan.

2. Both the means of production and consumer goods were in short supply. There were serious shortages of raw and semi-finished materials necessary for capital construction and production, such as steel, timber, bamboo and coal, as well as many consumer goods necessary for the livelihood of the people, so that residents in some areas engaged in bartering. Iron and steel are important materials for capital construction and industrial production. Last year, we used 700,000 tons of reserves (of this, 200,000 tons alone were used for making two-wheeled double-shared ploughs and portable steam engines.<sup>29</sup>) Because of the lack of raw materials, handicraftsmen raised prices and rushed to purchase scrap iron and steel. In some places, handicraftsmen robbed bamboo from supply and marketing cooperatives. Shortages of daily necessities were also fairly widespread, and "oxen"<sup>30</sup> appeared dealing in commodities such as bicycles. It seems that we need to have a certain amount of products available on the market. If we have less than this amount, commodity shortages and even the emergence of black markets, hoarding and speculation can result.

We know that paper money is a measure of goods and materials. To

issue paper money, we must have the goods and materials to back it up. The amount of goods and materials did increase in 1955 and 1956, but there were still shortages because we overspent about 3 billion yuan on finance and credit funds.

As I said earlier, we scored major achievements in economic development in 1956 although there were truly some mistakes. Experience does not come overnight. Mistakes have been made, and we can hardly avoid them in the future. We have spent more than 20 years groping to understand the laws governing the revolution. We must carry out two or three five-year plans before gaining necessary experience in development. Our mistakes have been made on the path of progress, so they can easily be corrected. As some goods and materials are in short supply, we have to ration a few goods and materials. On the whole, however, the market is still stable and there are not many black markets or “oxen.” We believe that grain, vegetable oil and cloth will be in short supply for a fairly long period of time. As for other goods and materials, as long as there are no serious natural calamities within the next two years and we adopt proper measures, we should be able to alleviate the shortages. We must engineer a planned slowdown in the rate of increase of the people’s purchasing power and keep it slower than the increase in the supply of consumer goods. In this way we can close the gap between supply and demand and basically balance purchasing power with the supply of goods and materials within the next two years.

## HOW TO SOLVE THE CURRENT FINANCIAL AND ECONOMIC PROBLEMS

We can adopt the following three main measures to solve our financial and economic problems.

1. We should initiate a campaign to increase production and practise economy. We need to greatly increase agricultural production and sideline products which are highly marketable. We must also increase as much as possible the production of manufactured goods and handicraft products for which there are raw materials and markets. Except for essential expenditures that we must guarantee, we should economize wherever possible on all expenses in capital construction and production, in enterprises, institutions and government departments, in mass organizations and schools, and in central and local governments.

2. We should reduce the amount of capital construction investment

appropriately. The purpose of doing this is to adapt the scale of capital construction for 1957 to the national financial and material capacity. Thus, the amount of capital construction and expenditures should be reduced below the limits issued originally. The amount of the reduction depends on the financial revenues available and the supply of steel, timber and other raw and semi-finished materials. After decreasing the investment, we must determine whether to cut down on major or minor projects. If we do not postpone some major projects, but simply trim some of the “meat” without cutting to “the bone,”<sup>31</sup> shortages will still occur in the future.

3. We should control the rate of increase in people's purchasing power in a planned way. Total wages can be increased only slightly over the next two years. Generally speaking, purchasing prices for agricultural products cannot be increased, except in cases where too low a price might impair production. In this way, the increase in purchasing power will be under planned control. In dealing with labour and wages, we should ensure that no departments, except when assigning graduates from universities, colleges and polytechnic schools, increase their work force, and that any units requiring increases in the number of personnel should accomplish this by internal readjustment. Generally speaking, wage increases through promotion should be postponed for two years. At the same time, we should increase production of consumer goods, sell government bonds and encourage savings. Through these methods, the balance will be restored between the supply of consumer goods and the people's purchasing power.

We shall take the three measures mentioned above in order to guarantee a definite level of economic development and gradually ease shortages of raw and semi-finished materials and consumer goods. In other words, this will enable us to fulfill the tasks set in the First Five-Year Plan and guarantee market stability. In doing this, we shall undoubtedly meet with many difficulties. For example, we shall have to deal appropriately with the aftermath of the postponement of certain capital construction projects, make appropriate arrangements for excess workers and solve the problem of secondary school students who can neither enter higher schools nor find jobs.

### MAKING THE SCALE OF DEVELOPMENT COMMENSURATE WITH THE NATIONAL CAPACITY

The scale of development should be commensurate with the national financial and material capacity. This will determine whether there is econom-



ic stability or instability. Economic stability is extremely important for a large country such as ours with a population of 600 million people. Premature development could result in economic chaos if the scale of growth exceeds the national financial and material capacity. If the two are compatible, the economy will be stable. Of course, if we are too conservative and unduly restrict the speed of development, that also would not be good. However, it is easier to correct overcaution than it is to correct rash advance, because when goods and materials are plentiful, we can easily speed up development. It is not so easy to cut down an overly ambitious scale of construction when financial and material capacity is found to be insufficient. This can cause serious waste. In his speech at the Eighth National Congress of the Party,<sup>1</sup> Comrade Bo Yibo<sup>32</sup> talked about three kinds of proportional relationships: that is, national income to accumulated reserves, national income to national budgetary revenue, and national budgetary expenditures to capital construction investment. I fully agree with his study. The proportions he gave may be a little sketchy, but it is essential for us to work out these proportions. Now, I should like to try to approach this problem from a different perspective, that is, to try to find some other restrictive measures which will assist us in avoiding the danger of economic development exceeding the national capacity. I think that the following points merit our attention.

1. Financial revenue and expenditure and bank credit should be balanced, with a small surplus. There will be an overall balance between purchasing power and the supply of goods and materials only if revenue and expenditure and credit are balanced. The balance between financial revenue and expenditure and between supply and demand for goods and materials from 1950 to 1955 clearly demonstrated this point. In 1956, owing to the deficit, the supply and demand of goods and materials was unbalanced, which also proves this point. This is an extremely important issue. At the same time, we should point out that it is necessary to maintain a slight surplus of revenue over expenditure. Because the scale of economic development in our country is increasingly large, we need to increase the amount of goods and materials in circulation every year, that is, to appropriately increase the amount of reserves. Maintaining a surplus does not only mean accumulating paper money, but more importantly, retaining a corresponding amount of goods and materials. Of course, this does not mean that a portion of the fiscal surplus may not be used. Once the necessary amount of goods and materials is in circulation and reserves are guaranteed, they may be used. Problems arose in 1956 because too much was used.

2. Materials and goods should be distributed rationally, according to

priorities. Essential production and consumption should be guaranteed prior to conducting necessary construction. There should be a prioritized sequence for the distribution of supplies like iron, steel, timber, wood, and other raw and semi-finished materials. When the supply of raw and semi-finished materials is sufficient, there is no problem, but when there is a shortage, we must follow priorities in distributing these. When there is a short supply of raw and semi-finished materials, we should first guarantee the minimum needs for the production of daily necessities, then meet the needs for manufacturing the means of production, and then use what remains for capital construction. This kind of ordering of priorities is utilized primarily to maintain a minimum supply of daily necessities for the people and to avoid a rash increase in the scale of capital construction. In distributing financial and material resources, production of daily necessities must take precedence over capital construction. This is an issue concerning the proper handling of the relationship between the people's livelihood and capital construction. We must recognize that the scale of capital construction we can undertake depends on the amount of raw and semi-finished materials available, not on how much paper money we have. The reason I say that we should guarantee the minimum requirements for raw and semi-finished materials for the production of daily necessities is that the production target for this year cannot be increased much from a base figure which was already very high last year. Owing to the poor harvest last year, light industrial production like cotton textiles must be limited this year. We must also recognize that in limiting the supply of raw and semi-finished materials today to minimum production needs in order to reserve some resources for capital construction, we are helping to increase production in the future.

3. The people's purchasing power should be increased to some extent, but the rate of increase must be commensurate with the supplies of consumer goods. The main components of the people's purchasing power are the wages of workers and office staff, the peasants' income from the sale of agricultural products, and the income of other people. The recent excessively rapid increase in purchasing power is due to the increase in total wages and to the increased prices of agricultural products. The increase in purchasing power that results from an increased output of agricultural products, however, should not be a matter of concern, but actually regarded as a good thing. At the moment, we should pay attention to the issue of increased prices for agricultural products. Price increases should be limited to those agricultural products whose prices were too low, thus adversely affecting production. This is a principle we must follow strictly. Before we raise prices for cash crops, we must consider the price parity of grain to cash crops in order to prevent

excessive price increases for cash crops. This could put a squeeze on grain, even to the point that we would be forced again to raise the price of grain. This could trigger successive price increases, raising overall prices. If price increases for agricultural products were excessive, we would have to reduce investment in construction, and at the same time it would create more difficulties in market supply and the withdrawal of currency from circulation. We must be very careful in this regard.

The sources of raw and semi-finished materials used to produce consumer goods are as follows: (1) agricultural products, (2) raw materials received in exchange for exported agricultural products and (3) the raw and semi-finished materials produced by heavy industry. These three sources are all limited. The rate of increase in the people's purchasing power must be in proportion to the rate of increase in consumer goods.

4. In looking at the proper balance between capital construction and financial and material capacity, we should not only consider the current year, but also the past and the future. Financial and material capacity refer to these four things: investment, production equipment plus raw and semi-finished materials, consumer goods and foreign exchange. In 1956, when we planned for capital construction, we just barely balanced it with the financial and material capacity for that year, without considering the past or the future. As a result, capital construction investment increased sharply so that we had to cut it back in 1957. This is one of the important lessons we learned in the implementation of the 1956 plan. The State Economic Commission estimated that if the capital construction investment in 1957 were 12.6 billion yuan, the investment for 1958 would be 16.2 to 18.1 billion yuan. We would not be able to bear so large a burden in expenditures in 1958. Looking at the investment in capital construction over the past few years, we see that it was 6.5 billion yuan in 1953, 7.5 billion yuan in 1954, 8.6 billion yuan in 1955, and in 1956 it sharply increased to 14 billion yuan. In 1956, the fourth year of the First Five-Year Plan, and 1957, import of equipment and installation of machinery for many construction projects were carried out. As a result, capital construction investment necessarily increased somewhat more than in previous years, but the sudden increase of 5.4 billion yuan was excessive and we were not able to balance either financial or material resources. Judging from this, even in making an annual plan, we must consider the past and the future so that we can coordinate our development. We must avoid sudden and drastic increases and decreases.

5. Our country's agricultural situation greatly restrains our economic development. The role of agriculture in the national economy is very large and the relationship between agricultural production and revenue is very



immediate. According to the estimates of the State Economic Commission, about 45 per cent of state revenue is related to agriculture. Of course, manufactured products based on agricultural raw materials have added value created by workers. Therefore, we cannot say that the payments made by peasants to the state amount to 45 per cent of the state revenue. This just means that there is a close relationship between national income and agriculture. In our country, the rural population is large, the farmland is limited and the rate of increase in agricultural output is not high. The gross value of agricultural production in 1956 was 58.3 billion yuan. If we estimate a rate of increase at 5 per cent, the increased value would be only 2.9 billion yuan. If we estimate a rate of increase in the rural population of 2 per cent, this indicates an increase of 10 million people every year. If each person spends 60 yuan each year, we will need to spend 600 million yuan each year and the surplus will amount to only 2.3 billion yuan. Although the processing of the additional cash crops by industry will help to raise the national income, this represents only a small amount of agricultural products. We depend on this 2 billion or so yuan worth of agricultural products for a large part of the increased purchasing power and for increased exports. The industrial component of our national economy will increase. Agricultural production will also expand. However, for quite a long time to come, agriculture will severely constrict the scale of economic development. This point was amply demonstrated in the way that poor agricultural harvests in 1954 and 1956 resulted in reductions in industrial production, revenue and capital construction investment in the following year.

#### WE MUST EXAMINE THE PROPORTIONAL RELATIONSHIPS WITHIN THE NATIONAL ECONOMY

The preparation of the Second Five-Year Plan<sup>7</sup> should differ somewhat from that of the First Five-Year Plan. The quality of the planning work should be improved. When we drew up the First Five-Year Plan, we focused on the number of new projects in capital construction and the balance between new construction projects and financial resources. Things are quite different now. The projects that have been completed or are being completed have increased considerably. If we do not carefully study the proportional relationships within the national economy, we are bound to bring about an unbalanced and chaotic situation. Moreover, to properly work out the proportional relationships, we cannot rely on books and mechanically copy



or apply what has been written. We must work them out based on the current economic situation in our country and on our past experience. We should research which proportions are workable, but more importantly, we should deal with actual problems. I am still not knowledgeable in this field and we must work together with comrades in the relevant departments. Now I shall give some of my views on the problems that are already evident.

1. As to investment in heavy industry, light industry and agriculture, we should make arrangements according to the principle set forth in "On the Ten Major Relationships" by Chairman Mao. Although the greater part of investment should go to heavy industry, we should increase the proportion of investment in light industry and agriculture. We should also increase investment in that sector of heavy industry that serves light industry and agriculture. This may cause the speed of industrial construction to appear to slow down temporarily, but actually it may be accelerated.

2. In the advanced industries such as coal, electric power and transportation, the problem of insufficient investment has become evident. The advanced industries have become backward. This situation must be changed very quickly; otherwise it will have a disadvantageous effect on the development of the entire national economy.

3. Some imbalances are also evident in the relationship between the iron and steel industry and the machine-building industry with regard to development priorities and investment figures. These need to be studied and solved in order to coordinate the two and promote their mutual development.

4. We must do a good job in handling the relationship between civilian industry and military industry. It is absolutely necessary to develop the military industry and we need factories devoted to the production of military supplies. But we cannot develop the military industry alone; it must be built on the foundation of a large civilian industry.

5. There are problems with the size and technological level of our factories. People want to build large factories and to master advanced technology. However, in line with the actual conditions in our country at present, we should consider whether we should have certain factories or not, and then consider whether they are to be advanced or not. We need large factories in the iron and steel industry, but there should be more small and medium-sized factories as well. In this way we can develop the iron and steel industry rapidly, produce many varieties of iron and steel and meet the needs of every area. In the coal industry, it takes less time to build inclined shafts and small vertical shafts than to build large vertical shafts. Furthermore, the former provides quick returns and can satisfy urgent needs. We must build a certain number of large factories. But since we do not have sufficient

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foreign exchange, we cannot rely completely on imported equipment; we must rely mainly on ourselves.

6. We should correctly handle the relationship between “bone” and “meat” in construction. We were inexperienced in handling this relationship; we paid attention to the “bone” to the neglect of the “meat.” We also underestimated the degree of difficulty and the amount of investment required to construct industrial cities and industrial bases. We should pay attention to these problems in a timely manner and get them solved properly.

7. Joint state-private enterprises must stop merging. Inappropriate mergers should be reversed. We should dispel the myth that under all circumstances a “large factory is good.” It is not necessarily proper to forcibly merge small factories that originally practised a system of independent accounting, and then subject them to unified accounting. In our country, there are many old factories. In terms of organizational form, it is not proper to have large mergers given such an industrial foundation.

## ANSWERS TO A XINHUA CORRESPONDENT ON MARKET PRICING

*April 29, 1957*

Q: What is the situation concerning the recent increases in prices in the market?

A: In the last few months the prices of some commodities have gone up. These price rises fall under four categories: (1) The prices of salt, pork, certain types of cooking oil (such as vegetable oil, sesame oil, tea oil and soybean oil), tung oil, and several kinds of tea rose. Along with the price rises for pork and cooking oil, the prices of meat products and some pastries also went up. (2) The prices of high-quality cigarettes and wool were raised, as were the prices of hats and shoes made of wool. (3) The prices of some handicraft products mainly made of iron, steel, bamboo and wood were raised. (4) In the free market for minor local products, the prices of some non-staple foods, vegetables and medicines increased. However, the commodities whose prices were raised represent only a minor percentage of all commodities. The prices of most commodities which are essential for the people's livelihood, including grain, cotton cloth, coal, knitwear and important articles for everyday use, remain stable.

Q: Why did the government raise the prices of pork, cooking oil, salt, woolen goods and high-quality cigarettes?

A: As we all know, the government recently raised the purchasing prices of pigs and certain oil-bearing crops by a significant amount. Since the purchasing prices of pigs and certain oil-bearing crops were formerly rather low, the output of pork in the past two years had decreased and the farming area devoted to oil-bearing crops was not expanding. If we had not increased the purchasing prices, not only would we not be able to increase output, but it would have been difficult just to maintain the present insufficient supply

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Talk given to a Xinhua correspondent in the name of the spokesman of the State Council. The original text of the talk, slightly abridged here, was carried in the *People's Daily* on April 30, 1957.

to the cities. To increase the output, it was necessary to increase the purchasing prices. Since we increased the purchasing prices, we also had to raise the selling prices. However, the purchasing prices were raised by a greater amount. For example, the purchasing price of pigs rose 13 per cent, while the selling price rose only 7 per cent. Can we raise only the purchasing prices without also raising the selling prices? No. Doing so would cause the government to lose a great deal of money, make it difficult to balance revenue and expenditure this year, and bring about an imbalance between the people's purchasing power and the supply of commodities.

We all know that last year the number of workers and office staff increased by over two million throughout the country. We also increased the salaries of ordinary government employees and teachers and of workers and office staff in enterprises. This greatly raised the purchasing power in society. On the other hand, the total amount of consumer goods this year can not be increased much over last year. The output of cotton cloth has even decreased. Moreover, this year we cannot put an abundance of commodity reserves on the market. As a result, this year there is still an imbalance between the people's purchasing power and the supply of commodities. To get the two in balance by and large, the government decided to reduce expenditures for government departments, army units, mass organizations, schools, and so on as much as possible, to try to reduce the institutional purchasing power so that both urban and rural residents be able to buy the things they need.

We must realize that prices will rise dramatically and the market will become chaotic if we do not maintain a balance between revenue and expenditure and between the people's purchasing power and the supply of commodities. This would be very harmful to economic development and the stability of the people's livelihood. We are now taking the initiative and raising the selling prices of pork and some types of cooking oil in a planned way, raising the tax rate of salt (the price of salt and the tax on it are still lower than before the War of Resistance Against Japan), and raising the prices of woolen goods and high-quality cigarettes, all for the purpose of balancing revenue with expenditure and people's purchasing power with the supply of commodities. Of course, there are many ways to achieve a balance in these two areas. The campaigns to increase production and practise economy and to work for a bumper harvest in agriculture, which we are launching vigorously all over the country, are our main methods for achieving a balance in these two areas. While maintaining a basic stability in market prices, raising the prices of certain commodities in a planned way is also an effective method. This is necessary for ensuring the development of the



country and the well-being of the people.

Only a minority of people have to spend more because of higher prices for woolen goods and high-quality cigarettes. The basic starting point for the government's price policy has always been to ensure stable prices for people's necessities; this is because large quantities of these commodities are regularly needed by the entire population and they account for the major portion of household expenses. As for the most essential commodities such as grain, the government has used the methods of long-distance transportation and freight subsidies to ensure the supply for cities. If the government did not employ subsidies, grain prices in cities would be much higher. Subsidizing those major commodities which have a very important bearing on the people's well-being while raising the prices of woolen goods, high-quality cigarettes and similar superior consumer goods to some extent and at certain times so as to balance revenue and expenditure is an important measure to ensure a stable life for people throughout the whole country.

Q: What caused the price increases for some handicrafts, vegetables and minor local products?

A: Prices of some handicraft products rose mainly because of insufficient supply and also because of the rise in prices of scrap iron, steel, bamboo and wood, as well as the wage increases for handicraft workers. This increased production costs in the handicraft industry. For some handicraft products, the demand exceeded the supply and people were competing to buy them. This was also a factor in the price rise. Why was the supply of raw and semi-finished materials for the handicraft industry insufficient? This is because we focused on national capital construction last year. Some of the raw and semi-finished materials which should have been used for the handicraft industry were used for capital construction. At the same time, following the cooperative transformation of agriculture throughout the country last year, more steel, iron, wood and bamboo were used for rural capital construction. This was also a factor in the shortage of raw and semi-finished materials for the handicraft industry. Since the campaign to increase production and practise economy was launched, the shortage of some raw and semi-finished materials for the handicraft industry is easing, but some shortages cannot be resolved within a short period of time. Therefore, there will still be a short supply of these raw and semi-finished materials this year. The governments at all levels and the departments involved should encourage the development of the handicraft industry and help to solve the problem of raw and semi-finished materials. The handicraft cooperatives, cooperative groups and handicraftsmen should try hard to economize on raw and semi-finished materials and reduce costs.

Higher prices for vegetables have an even greater effect on the people's well-being. There are two basic factors contributing to rising prices for vegetables. One is the seasonal price differential, that is, the price falls in peak seasons and rises in off seasons. This is inevitable as well as necessary. If it were not so, nobody would stock vegetables for the off seasons. Another kind of price rise occurs when the price is higher than the price was during the same period the year before. The recent price rise for vegetables is due to both factors. What causes the latter type of price rise? This is because the population in some cities has increased rapidly and the vegetable-growing areas have not been enlarged accordingly. In some cities, the areas for growing vegetables were enlarged appropriately, but because of the early frost last autumn, the output of autumn vegetables decreased and the fairly long spring this year stunted the growth of spring vegetables. The experience of these years has shown that we not only need to enlarge the areas for growing vegetables in proportion to the increase in the urban population, but we also need to make the enlargement appropriately greater than the increase in the urban population to ensure a certain amount of reserves, because vegetable production is affected easily by natural calamities. As long as local governments really pay attention to properly enlarging areas for growing vegetables in the areas surrounding cities and improve market management of vegetables, it is possible to prevent undue price increases for vegetables. Since natural calamities such as frost and cold spring weather are inevitable, the leading departments should regulate the supply of vegetables for various localities.

The price rise for some minor local products was due to the fact that production fell short of demand. The free market has been open less than one year.<sup>33</sup> For most minor local products it is still impossible to increase production greatly. The price will naturally stabilize when we have increased production and balanced supply and demand. Local authorities should strengthen management of the free markets and facilitate their sound development.

Q: How much do price increases for certain commodities over the past few months really affect the people's livelihood?

A: First of all, following the increase of purchasing prices of some agricultural products, some non-staple foods, minor local products and raw and semi-finished materials used by the handicraft industry, the peasants saw an increase in their incomes. Some of the commodity price increases caused peasants to spend more, but the increase in their incomes more than made up for the increase in expenditures. As for city dwellers, they were affected to varying degrees by the rising prices of some commodities. The expendi-

tures of families with higher purchasing power increased considerably, while the expenditures of families with lower purchasing power increased slightly. The increase in expenditure for people in different cities differs. Except for a tiny minority, generally speaking, the income from increased wages last year generally exceeded the expenditures due to increased prices. A small number of people did not have wage increases last year and had to spend more. But for most of them, the increased expenditure accounted for only a small portion of their wages.

The increased employment and the increase in wages last year were a good thing. However, the problem arising thereafter was that the means of production as well as consumer goods were still in short supply even though production of these greatly increased. This amply demonstrates that for a country like ours, which is economically backward and still developing, the people's living standard can only be improved gradually on the basis of growth in production. We must continue to work hard for a long time.

Q: What will be the future trend in market prices?

A: Revenue and expenditure this year will be balanced, as will be people's purchasing power with the supply of commodities. This is because the people throughout the country have vigorously participated in the movement to increase production and practise economy. We have already appropriately reduced capital construction investment and gradually raised the selling prices of some commodities. We have already readjusted the prices of some commodities that needed readjustment, and the government will adopt a policy of stabilizing the prices of the commodities which are controlled mainly by the state. Since the commodities controlled by the state account for the greatest portion of the total value of the commodities in the country, prices will, generally speaking, remain stable in the future.

## **WE MUST SOLVE THE PROBLEM OF VEGETABLE SUPPLY PROPERLY**

*July 22, 1957*

We are convening this meeting in order to study the problem of ensuring the vegetable supply and stabilizing vegetable prices, which is a general demand of city dwellers. Those who have low purchasing power are even more concerned with this issue.

The Party committees and governments of large and medium-sized cities are faced with many important issues, one of which is the supply of vegetables. At the initial stage of large-scale economic development, it is right for us to focus primarily on industrial production and capital construction because the country needs to be industrialized. However, development requires an increase in workers and staff, and food must be supplied for the increasing urban population. Can we give priority only to building factories and neglect food supplies for workers and staff? We used to pay attention only to factory buildings, machines and the like and paid very little attention to the daily needs of workers and staff, hence we failed to supply them with adequate vegetables and other non-staple foods. It seems to me that the supply of these daily necessities is of no less importance than the construction of factories; they must be considered as equally important. If we pay attention only to industrial development without solving the livelihood problems of our workers and staff, the workers may cause trouble and we will then be forced to solve these problems. People should learn from experience. The serious shortage of vegetables last winter and this spring has taught us such a profound lesson that we now must hold this meeting to solve the problem. Our Communist Party led the revolution to success and it is also capable of carrying out the socialist construction. What will have become of us if we fail to solve the vegetable problem?

The prerequisite for ensuring the vegetable supply is to grow enough

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Excerpt from a speech at a meeting concerning the supply of vegetables in 13 provinces and cities.



vegetables. To accomplish this, sufficient growing acreage must be guaranteed and a “safety coefficient” should be set.

In the suburbs of large and medium-sized cities, sufficient acreage should be set aside for growing vegetables. First of all, the amount of vegetables required should be calculated according to the size of the population. Then the crop acreage should be calculated according to the per *mu* (one fifteenth of a hectare) output. A city’s vegetable supply should come mainly from its own suburbs. In order to increase the vegetable-growing area, vegetable growers should be allowed to pay in cash<sup>34</sup> instead of in grain and the quota for state-purchased grain should also be reduced or exempted appropriately. Grain production this year will not be affected much, though the vegetable-growing acreage will increase by 400,000 *mu* across the country. If we ask the peasants to grow vegetables and pay their agricultural tax in grain as usual, they will have no choice but to buy grain to pay the tax. That will not do.

In addition to relying on the suburbs for vegetables, large and medium-sized cities must be supplied by other vegetable-growing areas. However, cities should depend mainly on suburban production, making national allocation subsidiary. They should not neglect suburban vegetable production, relying only on national allocation and transportation; neither should they rely only on suburban production without having specific vegetable-growing bases, as winter and spring supplies cannot be guaranteed. As I understand the vegetable supply network of the past, Shanghai did not rely only on its suburbs for vegetable supplies, but it also made several adjacent counties in the Songjiang<sup>35</sup> and Suzhou<sup>36</sup> Subprovincial Administrative Regions, and even areas in Pinghu and Jiaxing in Zhejiang Province its vegetable-growing bases. The same is true in the north. Shandong Province is a base area for growing Chinese cabbages. Tangshan, Baoding and other areas of Hebei Province are also vegetable-growing areas. Besides maintaining and developing these bases which have come into being over the years, new cities have to set up new base areas for growing autumn vegetables. In some of these base areas, we can experiment this year with the application of more chemical fertilizer to see exactly how many more vegetables can be harvested by this method. We have difficulties producing enough grain owing to the inadequate amount of cultivated land. If the output of vegetables can be increased greatly by applying chemical fertilizers on the several hundred thousand *mu* in vegetable-growing base areas, this will solve a big problem. The experimental area does not have to be too large owing to the shortage of chemical fertilizer this year. If good results are obtained, chemical fertilizers can be imported next year for the purpose of growing vegetables.

There must be a “safety coefficient” in the areas for growing vegetables, that is, there should be a certain margin to cover natural calamities. Agricultural production is greatly affected by natural conditions. Each year, there are many calamity-stricken areas where grain output and vegetable output are reduced. If there is no “safety coefficient” in the vegetable-growing acreage, we will not have enough vegetables in reserve. Without enough reserves, supplies cannot be guaranteed in the event of a natural calamity.

We must ensure that peasants will benefit from the enlarged vegetable-growing areas. Fair prices should be set so that vegetables will not be sold at unduly low prices at the expense of the peasants. It will not do if the peasants cannot make a profit or even suffer losses. It is not good if the income from growing vegetables is too much higher than that from growing grain crops. But it is even worse if the former is lower than the latter. Each area should make a careful calculation of what would be a reasonable amount of income for vegetable-growers.

With a “safety coefficient,” it is unavoidable that some vegetables will rot when excessive amounts of vegetables are grown. Such an eventuality can occur even if no “safety coefficient” is set. But in using a “safety coefficient,” large amounts of vegetables will not necessarily rot away. At present we are faced with two problems. One is that people are cursing about the inadequate supply of vegetables every year. The other is that it is hard to avoid spoilage when more vegetables are grown. If we have a choice between the two, I prefer growing more to growing less. Should losses occur, they should be covered by the state, not by the people. There are always ways to dispose of surplus vegetables. For example, pigs are now raised in all large and medium-sized cities. The surplus vegetables can be used as pig feed. With more green feed, pigs will consume less grain. Actually it is not likely that there will be a large surplus of vegetables every year. Taking the country as a whole, when some areas are not stricken by natural calamities, other areas are; if there is a surplus in some areas, there is a shortage in other areas. In the overall calculation, there will not necessarily be a great surplus. Of course, efforts should be made to improve management and administration so as to reduce the losses caused by spoilage. Losses owing to poor management and administration should not be attributed to the “safety coefficient.”

The problem of vegetable storage should be conscientiously tackled. Who should handle this job? First of all, the peasants should store vegetables. If we want them to do this, we must ensure that it will be profitable for them. This can be done either by paying their storage fees or by setting seasonal price differentials. Short of this, they will be unwilling to store vegetables.

Second, the catering establishments in government departments, army units and schools can also store vegetables. In autumn in the north, for instance, they store vegetables sufficient to last several months so that they will not need to be supplied with additional vegetables during this period. Dispersed storage will help to reduce the amount of vegetables that urban commercial departments must store. As a result, not much investment will be required for capital construction for storage facilities. But attention should be paid to preventing panic buying in consequence of dispersed storage. Third, storage by urban commercial departments is also indispensable.

Making pickles during plentiful periods is another method for solving the problem of the vegetable supply for the cities. People in many areas have, over the years, made pickles. Government departments, army units and schools can also have a try. This should also be done step by step in light of the supply situation, equipment and necessary technology, and we cannot demand that it be accomplished this year.

In short, the supply of vegetables in the cities is an important matter. We must employ all possible means to find a proper solution to this problem.

## **WE MUST ADVOCATE BIRTH CONTROL**

*August 20, 1957*

As China has a large population, we must advocate birth control. Population is a major obstacle to our economic development. Our shortages in grain, cloth, schools and the like are related to our large population and its rapid growth.

It will take one or two decades for birth-control measures to have any effect. The central authorities, provinces and municipalities must all establish special commissions in charge of birth control.

It is hard to talk about birth control in Chinese society. Not only women but also men are very shy about buying contraceptives. Therefore, we should extensively publicize the need for birth control so that our people will not shy away. We can call on our Party members not to have more than two children; the prices for birth control pills and contraceptives can be further lowered, and they can even be made available free of charge. We plan to spend tens of millions of yuan to subsidize birth control each year. It will be highly advantageous to do so.<sup>37</sup>

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Excerpt from a speech at a regular executive meeting of the State Council.



## WE MUST ATTACH IMPORTANCE TO GRAIN WORK

*September 6, 1957*

### I. THIS YEAR'S HARVEST AND OUR POLICY

There were serious natural calamities in certain provinces and regions this year and the harvest in northeast China and Inner Mongolia cannot yet be determined. But on the whole, it will probably be an average year or better. In accordance with this estimate, our policy should be to take advantage of this opportunity by ensuring normal grain purchases and to practise limited sales in order to use good harvests to make up for poor harvests. This so-called opportunity arises because, first, this will be an average or better than average year and second, we are conducting a socialist education movement<sup>38</sup> in the countryside. By normal purchasing I mean that we must ensure that we can keep the amount of purchases at a little bit more than 42.5 billion kg.

Many provinces and regions are calling for low purchasing and high sales. For a particular province or region, this idea may have a certain rationale. But considering this from the perspective of the whole country, that would be unthinkable since, according to the figures given by many comrades, the state will need to use 1 to 1.5 billion kg of reserve grain in the grain year from 1957 to 1958.<sup>39</sup> We maintain that under these conditions (an average or better than average year and a socialist education movement in progress), it would definitely be a mistake if the state does not add 2 to 2.5 billion kg of grain to the state reserves, but instead uses up 1 to 1.5 billion kg of reserve grain, in which case, if next year is a famine year, the nation will be in a dangerous position. Then we shall have to cut down again and, as a result, the overall situation will land us in a passive position.

What we should do now is to choose between two policies: either to ensure normal purchasing and limit sales, or to have low purchasing and

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Excerpt from a concluding speech at a national meeting on grain work.

large sales. We should choose the former, because the latter is risky. Comrades from Heilongjiang and Liaoning provinces reported that the provincial Party committees made self-criticisms about not paying close attention to grain purchasing and sales last year. If we do not pay close attention to grain purchasing and sales this year, and if there is a grain shortage caused by natural disasters next year, all of us will have to make self-criticisms.

In “The Situation in the Summer of 1957,” Comrade Mao Zedong pointed out, “Over the next few years, the annual sum of 17.5 billion kg of grain in taxes and 25 billion kg in state purchases must be obtained without fail. However, some adjustments may be made, depending on whether the harvest is good or poor. As production rises year by year and the number of grain-deficient households correspondingly falls, there should be annual reductions in grain sales to rural areas. In cities, wherever grain sales are excessive, there should also be appropriate reductions. Only thus can the state increase its grain reserves each year and meet possible emergencies.” We do not advocate more purchases and less sales, because this is liable to cause the misconception that the more we purchase, the better. Therefore, we only advocate ensuring normal purchasing and practising limited sales. We do not hope to purchase much; this would not be feasible. We purchased an excessive amount of grain in 1954; the result was a shortage in 1955, so that we had to readjust the state monopoly on sales. This mistake should not be repeated.

Experience over the past few years shows us that the difference between a good harvest and a bad harvest amounts to only 1 to 1.5 billion kg in grain purchases, but that the difference in the amount of grain sold is very large. The sales volume of grain last year was 42.55 billion kg. We suffered natural calamities that year and had just completed cooperativization. Trouble would have occurred if we had sold less. The problem was that we oversold more than 2 billion kg. We had a good harvest in 1955, and the sales volume of grain was only 36.1 billion kg. Comparing this figure with that of 1956, when we suffered natural calamities, the difference was as much as 6.45 billion kg. Of course, we should purchase a little bit more in a year with good harvests, but the real key is to sell less. In short, seizing the opportunity does not mean purchasing more, but ensuring normal purchasing. We hope to make the objective of a lower sales volume the focus of our work; nobody will starve to death if we sell a little bit less in a good harvest area or in a good harvest year.

## II. ON THE ISSUE OF PURCHASING

We should purchase 42.5 billion kg of grain from the peasantry. This amount must be fixed; otherwise, we cannot ensure smooth progress in national development. Of course, we will need to make certain adjustments for good or bad harvest years.

If production increases, we should purchase more, as appropriate. This is necessary because we can make up for a bad harvest with a good one. If we do not purchase more when production increases, we shall certainly have a difficult time in a bad harvest year or in a poor harvest area. The amount of increased purchases should usually be at least 40 per cent of the amount of increased output. Under special circumstances, we should purchase even a little more than this. "Special" here indicates a serious disequilibrium of good to bad harvests within a province, between provinces or between two years. But we cannot purchase too much, either. After a good harvest, the agricultural producers' cooperatives should retain a little bit more and the peasants should also get a bit more for food in order to motivate them to produce.

We should handle grain purchasing well, requesting the peasants to turn in the amount required and guarantee the quality. We should clear up any delays or debts in grain taxes and should continue to maintain the good tradition of turning in grain of good quality to the state. Agricultural producers' cooperatives that lack grain may turn in cash as a substitute.<sup>34</sup> State grain purchases from peasant households engaged in individual farming and their obligations to the state should be handled in strict accordance with the rules. The agricultural producers' cooperatives must do a good job in managing this matter.

## III. ON THE ISSUE OF STATE SALES

The grain rationing for peasants can be done on a per capita basis. Each province can decide the number of ration categories and the differential. However, the total amount of rations should not exceed the set state sales target.

We allow agricultural producers' cooperatives to run oil mills, bean-curd workshops and vermicelli workshops, but there should not be too many of these and they must be placed under appropriate control. We

should prohibit the cooperatives from using grain to produce processed foods unless authorized to do so.

We must not overlook the work of state sales in small disaster areas or in poor harvest areas within regions with good harvest. We used to neglect small disaster areas enclosed within regions with good harvests and problems arose as a result. From now on, we should arrange state sales with more attention to detail.

We must also get a firm grasp on state sales work in cities and towns. To the extent that the ration standard for city and town dwellers can be lowered, this should be done accordingly. A certain proportion of the grain ration can be supplied in sweet potatoes.

The amount of grain used by collective canteens should be regulated strictly. They should not be allowed to falsify member statistics in order to receive more grain. We can initially utilize food coupons for processed food on a trial basis in disaster areas, but not apply them across the country for the time being. We should rectify the food coupon system. There should be a fixed number of food coupons in circulation, but not too many, because that could cause panic purchasing when certain commodities appear to be in shortage. The purpose of rectification is to reduce the number of loopholes that can be exploited and to prevent panic purchasing.

Here I must emphasize the issue of discipline in our state sales work. To ensure that we do not oversell, we must issue sales targets for each month and quarter. The State Council has been doing so since last September. But people do not pay attention to these in most areas, and they exceed the state sales target every month. This is a very big loophole. Therefore, we shall establish this rule and follow it from now on: the state sales target must be carried out by all localities and departments and it may not be exceeded without authorization.

#### IV. THE WHOLE PARTY SHOULD ATTACH IMPORTANCE TO GRAIN WORK

Grain work has a vital bearing on the immediate interests of the people throughout the country. We not only have to purchase surplus grain from more than 500 million peasants, but we also have to supply grain to 100 million city and town dwellers as well as to the rural population lacking grain. In other words, this relates not only to how



much we purchase from over 500 million peasants but also to the sales of grain to meet the needs of nearly 200 million people. In short, it affects the immediate interests of everyone in the country. This is the first point. Second, there is a direct relationship between grain distribution and agricultural production. State purchase and sale of grain are a kind of system of distribution of grain by the state. If we perform this well, we stimulate agricultural production. If not, it will have a disadvantageous effect. The peasants should pay attention both to production and distribution, which are closely connected. In distributing grain, we should take into consideration the interests of both the state and the peasants. If we consider only the needs of the state and ignore the needs of the peasants, this will dampen the peasants' motivation to produce and will be disadvantageous for agricultural production, and will even affect the development of the national economy as a whole. But if we do not consider the needs of the state and put undue emphasis on the needs of the peasants, this will affect the grain supply for city and town dwellers and hamper national development. Third, grain is the most important material for keeping the market stable and ensuring development. At present, there is nothing more important than grain. When we question whether the market is stable, what we are asking is whether the grain situation and grain prices are stable. If the grain situation and prices are not stable, this will cause prices throughout the market to be unstable and thus national development will be impeded. All this demonstrates that grain work is extremely important. It is not purely economic work; it is also important political work. The Party committees at all levels must strengthen leadership and solve these problems in a down-to-earth manner. We thought that after cooperativization, the grain work would be accomplished somewhat more easily since over 100 million peasant households now function more simply as several hundred thousand cooperatives. We now see that this idea is not totally correct; at least it will not be true for some time. Therefore, the whole Party must, as ever, place importance on grain work.

We spend much time every year in mobilizing the whole Party to exert great efforts in grain work. There is good reason for this. If we use grain economically in our country, there will be enough for food and other uses. If we eat as much as we want, there will not be enough for both. If we do not get a firm grip on distribution, too much grain will be used as food. The problem now is to buy some of the grain that the peasants do not need for food. This has to do with finding the mean between economizing and uncontrolled consumption. This is the very crux

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of the grain problem in our country, now and in the near future. On the one hand, we ask people not to engage in uncontrolled consumption and use of grain in order to ensure national development. On the other hand, we should guarantee that peasants can produce enough for food and for other uses in order to motivate them. All of these considerations certainly make the grain work extensive and difficult, and this kind of mass work will be going on for a long time. All Party comrades, especially those doing financial and economic work, should be keenly aware of this.

## **PROBLEMS MERITING OUR ATTENTION AFTER HAVING IMPROVED THE ECONOMIC STRUCTURE**

*September 24, 1957*

1. Now that some of the powers of the central authorities have been delegated to lower levels, we must do more to balance the economies of various localities. It is absolutely necessary to expand the powers of the local authorities. Generally speaking, the local authorities understand local conditions more clearly than the central authorities do. Because the institutional structure has been changed, the localities can now better handle affairs in light of specific local conditions. But we must do more to balance the economic work across the nation. Since economic units are widely scattered, there can be no planned economy without an overall and integrated balance. In the past, the ministries of the Central Government sometimes neglected the local authorities; and now after some of the authority of the central government has been transferred downward, local authorities might ignore the overall situation. Therefore, we should appropriately decentralize and at the same time strengthen integration. We maintain that much more work should be done to achieve a balance now that we are decentralizing. While developing the economy, we must see to it that existing production equipment does not lie idle. For example, the production equipment in coastal cities should not be left idle while the interior provinces are establishing industrial enterprises. But it is wrong to consider only coastal cities and to ignore the interior. For instance, the manufacture of thermoses should not be concentrated in coastal areas, since long distance transport and sale are inappropriate; but it would also be a mistake for the interior to try to be self-sufficient in everything. Capital construction projects in all localities must be examined and balanced by national planning organs.

2. The local authorities must direct investment. We believe that local investments—the greater part of the money of the localities—should be made

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Excerpt from a speech at the Third Plenary Session of the Eighth Central Committee of the Chinese Communist Party.

mainly in areas advantageous for the development of agricultural production such as the chemical fertilizer industry, water conservancy projects and reclamation of reclaimable wastelands.

3. Once the financial system is changed, we must establish an appropriate financial management system. After some authority has been delegated from the central authorities to the provinces and cities, the provinces and cities must then share this power with subprovincial administrative regions and counties.<sup>40</sup> From now on, all localities and enterprises will have some financial resources at their disposal, so that it will be easier for them to get things done. But, things could get even more difficult in the absence of good management. Since there are several hundred thousand units, corruption and waste are inevitable. We must establish various management systems to reduce and prevent corruption and waste. For example, we must establish an accounting system. All units without exception must keep account books and set rules concerning expenditures. The use of funds should not be approved by just one person, but should be approved by a specified department. We must have a reporting system. Localities must report their revenue and expenditures in the reports on the work of their governments, and all financial affairs should be listed in the annual reports of enterprises. We must establish an auditing system. The Ministry of Finance, the Ministry of Supervision,<sup>41</sup> and governments at all levels should determine the methods for auditing.

4. The system of revenue sharing between the central and local authorities will remain basically unchanged for three years. However, one year after implementation, there should be a partial adjustment if the system is found to be inappropriate. There should be a limit on the share of revenue; the local share of revenue should not exceed 3 to 3.6 billion yuan in the next three years and the foreign exchange retained by localities should not exceed US \$45 to 50 million. Staying under these two figures is possible as well as necessary. If the figures are too large, the country's key construction projects will be affected. We estimate that within three years, local retained revenue will grow from a small base to a large amount and that rich provinces and cities will profit more as poor ones profit less. This will be determined by the course of economic development. After one year of structural improvement, we should review our experience and may make a partial adjustment because the figure of 3 to 3.6 billion yuan to be retained by the local authorities in three years is an estimate. Within these figures, there should be about 1 to 1.5 billion yuan of financial surplus, and about 2 billion yuan in proportional sharing, but the actual result after implementation might be very different. The difference between rich and poor areas might also be very



great. We can only perceive the problems after a year of implementation. Therefore, we say that the system will be basically unchanged for three years, and a necessary partial adjustment will be made after the first year of implementation.

## PRINCIPAL SOLUTIONS TO THE PROBLEMS OF FOOD AND CLOTHING

*September 24, 1957*

At present, grain and cloth are in short supply. It will be hard to increase the average per capita ration during the period of the Second Five-Year Plan.<sup>7</sup> Moreover, the ration is decreasing. The main causes are as follows. First is the growth in population. Each year 12 to 15 million babies are born, raising the demand for food and cloth. The second cause is the increase in investment in national construction, resulting in a growing number of workers and office staff, a general increase in employment and the emergence of peasants who become workers. This leads to an increase in the people's purchasing power. At the same time, supplies of consumer goods such as grain and cloth are increasing slowly, making it difficult to increase the average per capita ration. This represents a serious imbalance. It seems that agriculture has become a weak link in our development.

In the First Five-Year Plan,<sup>28</sup> priority was given to industry and communications, which was necessary. With the emphasis for agricultural development on the cooperative movement, 8.4 billion yuan was appropriated for investment in agriculture and operating expenses. We had to do so at the time. But we have noted that the cooperative movement has so far created favourable conditions only for the development of agriculture, falling short of a thorough solution. It will take a certain period of time, say seven to ten years, for the many measures to effect an increase in agricultural output. If we do not pay due attention to the development of agriculture during the Second Five-Year Plan period, it will be too late for us to do so during the Third Five-Year Plan period, and then conditions will be tight for the next 15 years. In other words, if we do not take this issue seriously at present and during the next five years, eventually it will cost us 15 years of progress.

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Excerpt from a speech at the Third Plenary Session of the Eighth Central Committee of the Chinese Communist Party.

The cooperative transformation of agriculture has been accomplished, but people are still worried about food and clothing. Now we can see the importance of agriculture clearly. Failure to improve agriculture will surely hold us back. Local Party committees pay great attention to agriculture, spending about 80 per cent of their energy on developing agriculture and solving the problems of food and clothing. Even comrades in charge of industry regard agriculture as a major issue at the moment. What, then, are the most effective measures that should be adopted in our country to increase agricultural output? Many measures have been taken, such as raising pigs to accumulate manure, flood control, reclaiming wasteland, improving farm implements and seeds, and eliminating plant diseases and insect pests, all with tangible results. Chairman Mao has recently raised the issue of agricultural machinery and the Central Five-Member Group for Economic Work<sup>42</sup> will study it.

Now I should like to talk on four issues: chemical fertilizer, chemical fibres, control of waterlogging and expanding irrigated areas. These issues can be boiled down to two, the chemical industry and water conservation, both of which will greatly help increase agricultural output.

### I. CHEMICAL FERTILIZER

From now on, we should increase chemical fertilizer production on a large scale. This is the fastest and most important means of increasing agricultural output. With regard to agricultural production, China is not like the Soviet Union or the United States. The Soviet Union and the United States have sufficient arable land and small populations. China has insufficient arable land and a large population, except for Inner Mongolia, Xinjiang, Tibet and Qinghai; 94 per cent of China's population inhabit only 40 per cent of the land. Countries like Japan and the Federal Republic of Germany also have large populations and insufficient land. Agricultural production is increased in the Soviet Union and the United States mainly by enlarging the cultivated area, while in Japan and the Federal Republic of Germany it is generally achieved by raising the per unit area yield. This can be seen from the amount of chemical fertilizer applied. The average amount of chemical fertilizer applied to one *mu* of land is 0.5 kg in the Soviet Union, 2 kg in the United States, 16.5 kg in Japan and 14 kg in the Federal Republic of Germany.<sup>43</sup> In the future, the major means for increasing agricultural output in our country will be to boost production and use of chemical

fertilizer, raise pigs for manure and increase per unit area yield, but not to reclaim wasteland. According to a survey by the Ministry of Land Reclamation,<sup>44</sup> there is only 800 million *mu* of reclaimable wasteland in the country, and it would be very difficult to bring all of this wasteland under cultivation.

In the past, we did not entertain much hope for the development of the chemical fertilizer industry. A chemical fertilizer factory designed for our country by the Soviet Union with an annual capacity of 72,000 tons would require five years of work before it could start production. We could not produce the equipment at home, so we have emphasized the need to raise pigs for manure rather than to focus on chemical fertilizers. The situation now has changed. Important machines and equipment for a chemical fertilizer factory, such as high-pressure reaction cylinders and high-pressure compressors have been successfully trial-produced; we are short only of some special steels. Supplies of the raw materials for producing chemical fertilizer—coal, iron sulphide ore, gypsum and salt—will be guaranteed during the Second Five-Year Plan period. Since February of this year when the Ministry of Chemical Industry proposed great expansion of chemical fertilizer production, we have had numerous discussions with the Ministry and have called a conference of the ministries responsible for the machine-building industry. The plan is to standardize designs for complete sets of equipment after a trial production period of one and one-half years, to begin in the second half of this year. According to our estimates, such equipment can be manufactured on a large scale by 1959 and installation can begin in 1960, after which the equipment can be produced in large quantities. Our machinery may be backward at first, but it can be improved later on.

Development of the chemical fertilizer industry is more economical and promises quicker results than reclamation of wasteland. An annual production of 1 million tons of chemical fertilizer requires an investment of only 1 billion yuan, leading to an increase of 3 million tons or 3 billion kg of grain. In comparison, 30 million *mu* of wasteland must be reclaimed at a cost of 1.5 billion yuan to bring about the same increase. For the present, raising pigs for manure and other means of accumulating manure are still very important and will remain so in the future. But feed is needed to raise pigs. Furthermore, manure from 100 million pigs would bring about an increase of only 5 billion kg of grain. Therefore, we should develop the chemical fertilizer industry on a large scale.



## II. CHEMICAL FIBRES

The principal solution to the problem of the clothing shortage from now on lies in the development of chemical fibres. Can we solve this problem by using cotton? After repeated consideration, we now feel that cotton does not look promising. Last year, 93 million *mu* of cotton was grown in the country. This year the figure has been reduced to 87 million *mu* due to the shortage of grain, and even this figure cannot be sustained. The area in China available for expansion of cotton planting is also limited. In Xinjiang, for instance, an expansion of 10 million *mu* of cotton fields would entail an expansion of 20 million *mu* of grain fields, totalling 30 million *mu*. But there are only 28 million *mu* of cultivated land in Xinjiang. It is clear that it would be very difficult to greatly increase cotton fields within a short period of time. It is true that the per unit area yield of cotton could be raised, but cotton fields in the interior of our country cannot guarantee stable yields through periods of drought or excessive rain, as can those in the Soviet Union. Our best hope for raising the output is to concentrate on the application of more fertilizer in the 20 million *mu* of cotton fields with relatively stable yields, however, it will be difficult within the short term to greatly increase the per unit area yield of cotton fields in general.

Can China's silk output be increased? Our current output of silk is only one third of the highest output in our history and all the silk textiles total only 2.8 million bolts of cloth. When the Japanese came to the Yangtze River and Pearl River deltas during the War of Resistance Against Japan, grain prices rose and there were no markets for silk. As a result, the peasants cut down mulberry trees so they could grow grain. It is true that silk production can be restored to some extent in the years to come. However, even if it were restored to the highest output in history, this would produce only 8.4 million bolts of cloth. Furthermore, complete restoration is not possible, and even that would not resolve the clothing shortage thoroughly.

Prospects for growing more hemp are limited because this requires use of cultivated land. While ramie production could be developed on a small scale, the degumming process is difficult and expensive. According to estimates made by the Ministry of Textile Industry, it would take 5 billion yuan to set up a ramie textile mill with an annual output comparable to 750,000 tons of cotton.

Artificial silk could be rapidly developed, which uses cotton linters or wood as raw materials, though the potential output would not be very large. Since this would yield the quickest results, construction should be actively promoted during the period of the Second Five-Year Plan. We can be sure

of the supply of cotton linters—100,000 to 150,000 tons will be available yearly. There is also no problem with factories. The plant in Andong<sup>45</sup> has already begun operation and the one in Baoding will be equipped next year. We are asking comrades in the cotton-growing regions to vigorously organize the collection of cotton linters and make sure that all linter machines are functional. But we must see to it that no seed cotton whatsoever is linted.

In addition, research concerning the processing of Xinjiang hemp,<sup>46</sup> cotton cortex and other resources into clothing materials should be conducted.

However, these fibres are limited and cannot alone provide a good solution for our clothing problem.

A solution to the clothing problem lies in chemical fibres which can be mass-produced in the future. Chemical fibres consist of artificial fibres and synthetic fibres, and in particular, there are many kinds of synthetic fibres. We should research how to produce a diversity of such fibres. Among these, capron<sup>47</sup> would be a promising one to develop. This raw material is a by-product of the coking process. Capron is more durable than cotton yarn—it has a durability theoretically calculated at five to 11 times that of cotton yarn. In terms of serviceability then, 300,000 tons of capron is equivalent to 1.5 million tons of cotton yarn or 1.5 million tons of cotton. According to the estimate of the Ministry of Chemical Industry, production of 300,000 tons of capron would require an investment of 7 billion yuan. This means that during the Second Five-Year Plan period we shall be able to produce only tens of thousands of tons. We plan to set up a small experimental synthetic fibre factory in Beijing next year.

In short, the development of chemical fertilizer and chemical fibres will bring about a major step forward in the chemical industry in our country. This will solve not only our food and clothing problems but also problems in developing production of explosives, dyestuff, Western medicines and plastics. Our country will have a developing chemical industry and we shall be able to reduce the import of industrial chemicals.

### III. CONTROL OF WATERLOGGING

Concerning natural disasters affecting agriculture during the eight years since liberation, there have been more floods than droughts and more waterlogging than floods. The worst waterlogging has been in Hebei, Shandong, Henan, northern Jiangsu and northern Anhui provinces, affecting

about 100 million *mu* of cultivated land. These calamities are mainly caused by the Yellow River, the bed of which is higher than the farmland, so that the land cannot drain sufficiently and water accumulates. Throughout Chinese history, strengthening the dykes has been the main method for harnessing rivers, resulting in river beds silting higher and higher. People in these areas suffer from frequent flooding, leading to enormous loss of life and dispersion of the population.

At present, the country does not have large financial resources and we need to decide which should be dealt with first, waterlogging control or wasteland reclamation. In my opinion, it would be of greater benefit to control waterlogging. A comparison can be made of the two. The output of one *mu* of land drained is about the same as that of one *mu* of field reclaimed, approximately 75 to 100 kg. However, the regions that need drainage systems are densely populated, making manpower easy to mobilize. Without control of waterlogging, these regions will require relief in the form of large quantities of grain every year, imposing a heavy burden on the nation. These are regions where cash crops predominate. Once waterlogging is brought under control, the peasants will be encouraged to apply large amounts of fertilizer, thus raising the output of cash crops. But, can the control of waterlogging be guaranteed? Not yet. I agree with the goal as proposed in some regions, to ensure harvests eight years out of ten. It will be quite satisfactory to guarantee the bulk of farmland against crop failure at the cost of some land. It should take about ten years to control waterlogging, so I hope that the State Planning Commission, the Seventh Office of the State Council,<sup>48</sup> the Ministry of Water Conservancy and the provinces involved will conduct special studies on this matter.

#### IV. EXPANDING IRRIGATED AREAS

Irrigation is one of the most reliable means of increasing agricultural output. We are behind Japan in water conservation and irrigation. In China, irrigated farmland<sup>49</sup> makes up only 30 per cent of the cultivated land, while in Japan, it is 50 per cent. If we convert 200 million *mu* of dry farmland into irrigated land and each *mu* produces an additional 75 kg on average, the increased output will total 15 billion kg. The Party Central Committee and the State Council recently announced a large-scale campaign to construct water conservancy projects during this winter and next spring. The Ministry of Water Conservancy and the various localities should meet to draw up a

plan for enlarging irrigated areas by 60 million *mu* next year and they should make great efforts to achieve this goal.

The campaign to construct water conservancy projects in the winter of 1955 and the spring of 1956 was very fruitful, bringing about an increase of 100 million *mu* of irrigated land. However, it had its shortcomings, mainly in regions where wells were dug. What were these shortcomings? First, inadequate attention was paid to local conditions and wells were dug where they were inappropriate. It is a mistake to dig wells where they are unnecessary or where there is no water, or in swampy areas. Second, the mass line was not fully carried out. Some local cadres simply gave compulsory orders. Third, the national goal, initially set to increase irrigated land by 170 million *mu*, was too high. Fourth, concrete guidance in technical aspects such as raising water to ground level, building irrigation ditches and levelling land was insufficient. Fifth, construction of water conservancy projects squeezed out rural sideline production, so that the peasants had no money to buy salt and cooking oil. All these shortcomings should be corrected. The Party Central Committee and the State Council have already given instructions<sup>50</sup> concerning the large-scale campaign to construct water conservancy projects during this winter and next spring. Investment in water conservancy, though supplemented by the state, should derive mainly from the masses. The State Council has decided to increase funds for water conservancy by more than 100 million yuan in 1957. After adding in locally raised funds, this will be no small figure. Any demand for more appropriation from the state will cause an imbalance between materials and goods on the one hand and cash on the other. When such a large investment or loan finally reaches the peasants, this will then become purchasing power, so the eventual equilibrium between cash and materials and goods must be taken into consideration.

In my speech today, I am not going to discuss reclamation of wasteland. Is it necessary? I think that wasteland can be reclaimed, but that it should be done in accordance with our capabilities. Moreover, priority should be given to reclaiming land which promises high yields and quick returns, for example, wasteland in the lake regions of Hubei Province and Hainan Island in Guangdong Province.

I have dealt with the four issues of chemical fertilizer, chemical fibres, control of waterlogging and expanding irrigated areas. I think that some preparatory discussions on these questions should be conducted in the newspapers to give persons from various circles, both Party members and non-Party personages, the chance to put forth their opinions. In this way we shall be able to adopt the most appropriate measures. We should be aware that in the past we made decisions on some matters too quickly, such as the



decision to grow a large number of rubber trees, for which I was held largely responsible. At that time, Stalin sent a telegram urging us to plant the trees quickly, requesting an output of at least 200,000 tons. Soviet experts were sent to our country and we obtained the necessary equipment. Accordingly, planting was begun. Many of the trees we planted did not survive. Our Leizhou Peninsula is different from islands in the South China Sea, which require different planting methods. Not just any seed is suitable; the seeds must be selected. Output cannot be determined until 15 to 20 years after the seeds are sown. For us to demand "greater, faster, better and more economical results" right at the beginning was far too hasty. This was a lesson for us. The construction of the Sanmen Gorge Reservoir, which was approved by the National People's Congress, is another example. Before any bill concerning such matters is approved by the National People's Congress, it would be helpful to publish it in the newspapers in order to solicit popular opinion and get everyone involved in discussions. At present there is much discussion in society and there are differences of opinion inside the Party. Some say that the reservoir will flood such a huge amount of land and that the dam will cause such a quick accumulation of mud and sand that the reservoir will be silted up in 20 years or so. Some maintain that a high dam should be built, while others insist on a low one. Some say that the silt will not accumulate, while others hold that it will, with everyone putting forward a different opinion. We should re-examine this matter, which will reveal the rashness with which decisions were made. In my opinion, major problems in agriculture and in much of our work should be subjected to nationwide discussion; there is much to gain and little to lose. As to the development of agriculture in China, not only Party members but many people in society have opinions. We should accept all good suggestions.

A lot of money has to be spent on food and clothing for the people, on chemical fertilizer, on chemical fibres, on control of waterlogging and on expanding irrigated areas. This is a necessity. We must provide the people with adequate food and clothing. When working out the Second Five-Year Plan, we should proceed from meeting people's needs in food and clothing. But during this period, we can only afford limited food and clothing. Should we fail to solve these problems for the people, our progress in socialist construction will not remain stable and we shall have to retrace our steps. Many comrades present here are engaged in industry. Are we to be held responsible if industry develops at the cost of agriculture? Yes, we are. If industry expands rapidly but we cannot fill our stomachs, we shall have to turn back and resume our preoccupation with agriculture all over again. Newspapers in imperialist countries assert that China's economy must col-

lapse sooner or later. As I see it, we shall not necessarily collapse, but we should admit that we are poor. If we focus only on industry and neglect the problems of food and clothing, by the time industry is developed, the people will be lacking food and clothing, and by then it will be too late to develop agriculture. Which is more beneficial, to retrace our steps later or to develop agriculture now? Of course, it is more beneficial to develop it now. Therefore, it must be made clear to comrades responsible for industry that while industry has an important status, adequate food and clothing are indispensable to the people's well-being. I do not think that development can be stable if the economy is not based on adequate food and clothing. Comrades responsible for agriculture have pointed out that this year's investment in agriculture is only 9 per cent of the total investment in capital construction, which is far from enough. They want to know if it can be raised to 12 per cent and even up to 20 per cent. Investment is made in agriculture in order to provide food and clothing, but the solution to these problems is not confined to agricultural development. Investment in agriculture should also encompass that part of industry that serves agriculture. For example, the production of chemical fertilizer and chemical fibres should be regarded as part of the solution to the problems of food and clothing. Without doubt these should not be lumped together with agriculture, but their development should be seen as part of the overall solution to the problems of agriculture. It would be incorrect to emphasize the amount of direct investment in agriculture and to neglect this point.

I think, if the above methods are adopted, there are bright prospects for an increase in agricultural output. However, there is yet another important condition for raising the people's living standards, that is, we must lower the birth rate.

## **REGULATIONS ON THE IMPROVEMENT OF THE INDUSTRIAL MANAGEMENT SYSTEM**

*November 8, 1957*

Ours is a socialist country and our country's development is planned. The production and development of all enterprises in all parts of the country must be subordinated to the unified state plan. Under no circumstances should they run counter to the plan. Our present industrial management system meets this requirement by and large. Judging from the current situation, however, the present industrial management system has two main defects. First, some enterprises which could be managed by local authorities are still managed directly by the industrial departments of the Central Government. In addition, local administrative organs have too little authority over industrial management; this includes material allocation and financial and personnel management. Second, persons in charge of an enterprise have too little authority over the enterprise, while the industrial administrative department has too much control over the business of that enterprise. These two major defects limit the motivation of local administrative organs and personnel in charge of enterprises. Within the framework of the unified state plan, it is absolutely necessary to empower local governments and enterprises with a certain degree of authority to respond to local conditions. This is done precisely for the purpose of enabling various localities to fulfil the unified state plan. For the purpose of appropriately increasing the authority of local governments over industrial management and of personnel in charge of enterprises over internal management, the State Council has made the following regulations.

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I. APPROPRIATELY INCREASE THE AUTHORITY OF  
PROVINCES, AUTONOMOUS REGIONS AND MUNICIPALITIES  
DIRECTLY UNDER THE CENTRAL GOVERNMENT OVER  
INDUSTRIAL MANAGEMENT

1. To readjust control over existing enterprises to allow provinces, autonomous regions and municipalities directly under the Central Government to take over management of some of the enterprises now under the direct control of the Central Government.

The authority to manage most enterprises now subordinated to the Ministry of Light Industry and the Ministry of Food Industry,<sup>51</sup> with the exception of certain enterprises that must be controlled by the central government, is to be devolved to the provinces, autonomous regions and municipalities directly under the Central Government. In the textile industry, the authority to manage only a small number of enterprises is to be devolved, and further steps for the devolution of the authority to manage most enterprises will be decided upon in light of actual conditions in the future.

As to enterprises under the departments of heavy industry, such as large mines, large metallurgical enterprises, large chemical industrial enterprises, major coal mines, large electricity networks, large power stations, oil wells and refineries, factories manufacturing large and precision machines, electric machinery, meters and instruments, military industries and other industries that require complex technology are to remain under the control of the various industrial departments of the Central Government. The authority to manage all other factories suitable for local administration is to be devolved step by step according to actual conditions.

The authority over management of all enterprises under the Ministry of Forestry Industry,<sup>52</sup> except a few units that require direct control of the Ministry, is to be devolved.

The authority over management of a number of ports and enterprises under the Ministry of Communications is to be devolved.

As for construction enterprises, the authority over management of civil construction enterprises in many areas should be gradually devolved and placed under unified management of local authorities.

Each industrial and transport department of the Central Government should consult with local governments in accordance with the above-mentioned principles and submit to the State Council lists of such enterprises and, after the lists are approved, the delegation of authority to lower authorities should commence.



All enterprises still under the ministries of the Central Government should accept the central-local dual leadership, with authority of various ministries of the Central Government as the main element, and leadership and supervision over these enterprises by local authorities should be strengthened.

2. To increase the authority of the people's councils in provinces, autonomous regions and municipalities directly under the Central Government over the allocation of materials.

Materials needed by enterprises under various ministries of the Central Government, by enterprises under local authorities (including joint state-private enterprises under local authorities) and by the commercial departments, whether these are materials to be allocated in a unified manner throughout the whole country by the State Economic Commission (hereinafter referred to as materials for unified allocation) or those to be allocated in a unified manner by various ministries of the Central Government (hereinafter referred to as ministry-controlled materials), are still to be applied for and allocated according to the original system. Materials needed by local state-owned and local joint state-private enterprises are to be applied for and allocated in a unified manner by provinces, autonomous regions and municipalities directly under the Central Government. However, on condition that the state plan is fulfilled, people's councils in provinces, autonomous regions and municipalities directly under the Central Government have the authority, in responding to local conditions and in following priorities, to make adjustments in the quantities, varieties, and scheduling in the use of materials applied for and received by central enterprises, local enterprises and local commercial departments under the people's councils' jurisdiction for their operation and production. The enterprises concerned should conform to these adjustments.

Generally speaking, neither provinces, autonomous regions nor municipalities directly under the Central Government may allocate or use materials which are to be supplied by various ministries of the Central Government to meet the needs of the whole country, even though such materials are being stored in local enterprises or warehouses. If local governments want to allocate and use these materials, they must obtain permission from the central departments concerned. When local governments want to use special raw and semi-finished materials for the manufacture of military products, they must also get permission from the central departments concerned.

If quantities of materials for unified allocation or of ministry-controlled materials produced by enterprises under the management of a province, an autonomous region or a municipality directly under the Central Government

are in excess of quotas set in the state plan, the local government may retain a certain percentage of the over-quota portion for its own allocation and use. However, it may not alter the specifications for products set in the original plan. The products in excess of the planned targets in enterprises under various ministries of the Central Government—with the exception of a few enterprises and a few products designated by the Central Government—can be shared with local governments in a proportion approved by the Central Government.

When provinces, autonomous regions and municipalities directly under the Central Government request machinery-manufacturing enterprises under various ministries of the Central Government to produce certain items in excess of original fixed quotas, if the items come under the unified allocation of the State Economic Commission or the control of any of the ministries, approval must be obtained from the relevant machine-building departments of the Central Government to avoid any unplanned increases in output.

3. As to the total profits of enterprises that were formerly under the control of ministries of the Central Government but are now under the management of local governments, 20 per cent shall go to local authorities and 80 per cent shall go to the Central Government.

Local governments are not entitled to share the profits of enterprises under the Second Ministry of Machine-Building Industry,<sup>53</sup> the Ministry of Posts and Telecommunications, the Ministry of Railways, the foreign sales section of the Ministry of Foreign Trade or the Civil Aviation Administration of China; nor may they share profits of large mines, large metallurgical plants, large chemical industrial enterprises, large coal mines, large electricity networks, oil wells and refineries, or factories manufacturing large machines and electric machinery. Also excluded are profits of inter-provincial shipping enterprises along the Yangtze River and the coast. Local governments may receive 20 per cent of the total profits of other enterprises, such as textile enterprises which are still under the management of the ministries of the Central Government.

This fixed 20 per cent to 80 per cent ratio of profits shall remain unchanged for three years in all enterprises in which local governments are entitled to share profits.

Profits of enterprises that have been under the management of local governments from the very beginning shall still go entirely to local governments.

4. To increase the power of local authorities to manage personnel. In all the enterprises whose management has been entrusted to local governments by the ministries of the Central Government, personnel management is to

be handled as it is in local enterprises. On condition that the leadership in major factories and mines is not weakened, the provinces, autonomous regions and municipalities directly under the Central Government may transfer appropriately various cadres in enterprises which are still under the control of ministries of the Central Government. But when transferring cadres who are under the administration of the State Council, local authorities should obtain approval from the State Council. Local authorities should also consult with the relevant industrial departments when transferring cadres under the administration of those departments. When transferring cadres, particularly senior technicians, their original professions should be taken into account and consideration should be given to enabling these cadres to remain at their working posts for a definite period of time before transferring them.

Enterprises under the ministries of the Central Government and their management organs in all parts of the country should accept leadership and supervision by local people's councils in matters concerning the organizational structure and sizes of their staff.

## II. APPROPRIATELY INCREASE THE AUTHORITY OF PERSONS IN CHARGE OF ENTERPRISES OVER INTERNAL MANAGEMENT

1. As to planned management, there will be fewer mandatory targets and persons in charge of enterprises will assume more responsibility for planned management.

Formerly, there were 12 mandatory targets set by the State Council which could not be changed without the prior approval of the State Council. These included the gross value of output, output of major products, the trial manufacture of new products, important technical and economic quotas, the rate and amount of reduction of cost, the total number of workers and office staff, the number of workers at the end of the year, the total payroll, the average wage, labour productivity and profits. The number of mandatory targets set by the State Council are to be reduced to four, that is, (1) output of major products, (2) total number of workers and office staff, (3) total payroll and (4) profits. The other eight, in general, are to be considered non-mandatory targets. When transmitting the plan to lower levels or submitting the plan to higher levels, these non-mandatory targets should still be included, together with the four mandatory targets, as a basis for calculation. When carrying out the plan, however, enterprises may make changes based on actual conditions. The amended non-mandatory targets

should be reported to the relevant ministries and bureaus for the record.

Apart from the four mandatory targets set by the State Council, each industrial ministry may, based on the particular needs of enterprises, add some additional mandatory targets, such as those for the trial production of new products, important technical and economic quotas and the rate of reduction of cost. In light of local conditions, people's councils in provinces, autonomous regions and municipalities directly under the Central Government may also increase some mandatory targets for enterprises under their administration, such as fixing the output of certain products which should be balanced.

In capital construction plans, there are four mandatory targets set by the State Council for 1957, that is, (1) total amount of investment, (2) above-norm projects,<sup>54</sup> (3) mobilization of productive capability and (4) construction and installation work load. These four mandatory targets are still to be met in the years to come. Targets for wages in construction and installation departments are to be handled according to the regulations formulated in the past. In using investment funds for local capital construction, under the premise of guaranteeing the fulfillment of the above-mentioned mandatory targets and within the total amount of local investment fixed by the State Council, provinces, autonomous regions and municipalities directly under the Central Government may readjust construction projects and the rate of progress in construction.

A state plan sets yearly targets only. As to quarterly and monthly plans, each department in charge should, in light of actual conditions, decide which enterprises should have their plans drawn up by the ministries and bureaus in charge and which should be allowed to make their own plans.

The procedures for drawing up plans should be simplified. The present procedures of transmitting plans downward twice and submitting them upward twice is to be changed to transmitting them downward twice and submitting them upward once only. In other words, first the higher authority is to transmit the control figures downward where plans are to be drafted, after which the draft is to be submitted for approval. Then the higher authority is to distribute the approved plans. Efforts should be made to have a yearly plan generally finalized by November of the previous year. After the plans are transmitted downward, generally they will not be amended. We must simplify existing tables and reports.

2. Profits are to be shared between the state and enterprises, and the financial management system of enterprises is to be improved. The total profits of an enterprise are to be shared between the state and that enterprise. The proportion is to be fixed in the following way: to take (1) the four



expenditures (expenditures for technical and organizational measures, for trial production of new products, for labour protection and for miscellaneous purchases) that an industrial department received from the state during the First Five-Year Plan<sup>28</sup> period, (2) the enterprise reward fund, and (3) 40 per cent of the profits in excess of planned targets, and add the three together. Then the ratio is calculated by dividing this sum by the total profit handed over to the state by that industrial department during the same five-year period. In other words, we can express the total amount of funds received by an industrial ministry from these three sources as the percentage of the total profits it handed over to the state, and use this percentage as the fixed share of profit that a particular industrial ministry is to receive from now on. Hereafter in the annual budget, the state will no longer appropriate the four expenditures and the enterprise reward fund. Expenses for these will be covered from the fixed share of profit. After this percentage of profit is fixed, it will not be changed for three years, and each year the actual amount will be calculated according to the actual amount of profit. Industrial ministries should, according to the above-mentioned principle and in light of actual conditions, fix different percentages for enterprises under their administration to determine the share of profits between the state and the enterprise. However, industrial ministries may control a portion of the profits received by enterprises directly under them and use it as adjustment fund among enterprises. Industrial management departments of each province, autonomous region and municipality directly under the Central Government may also withhold a portion of the profits received by enterprises directly under them (including enterprises decentralized by the central authority) and use it as adjustment fund for local enterprises.

Expenses for trial production of new products of national defence enterprises and for extraordinarily important new products of other enterprises will be disbursed separately by the departments in charge if such expenses are beyond the capacity of the enterprises themselves.

Since there were no such regulations concerning the four expenditures, the enterprise reward fund and the share of the profits in excess of planned targets in joint state-private enterprises as there were for state enterprises, and since most of the joint state-private enterprises are medium-sized and small ones, in implementing this profit-sharing principle, special studies should be conducted and proper methods stipulated in fixing the percentages of profits to be received by these enterprises.

When using retained profits, enterprises must spend most of the money for production and give appropriate consideration to improving the welfare of workers and office staff.

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Certain unreasonable regulations now in force, such as those forbidding “the alteration of form” or “the increase of value”<sup>55</sup> after an overhaul, are to be abolished. As long as the plan is fulfilled, an enterprise may adjust its administrative expenses, keeping within the total allocation. Within the limits of the authority granted by the higher authorities, an enterprise may increase, decrease or retire its fixed assets.

3. The personnel management system in enterprises is to be improved. With the exception of leading personnel (factory directors, deputy directors, managers and assistant managers) as well as major technicians, all workers and office staff are to be managed by the enterprises themselves.

So long as they do not increase the total number of their workers and office staff, enterprises have the authority to readjust their own organizations and personnel.

## REGULATIONS ON THE IMPROVEMENT OF THE COMMERCIAL MANAGEMENT SYSTEM

*November 8, 1957*

First, the establishment of local (provincial, autonomous regional, municipal and county) commercial departments is to be decided on by the people's councils in provinces, autonomous regions and municipalities directly under the Central Government, to accord with local conditions. When two or more commercial administrative departments are merged, they can abandon their previous independent accounting in favour of unified accounting. However, they must still accept guidance on business principles from the departments in charge of commerce to which they were formerly subordinated. In principle, local commercial administrative departments and enterprise management organs should be merged. For example, commercial departments should be transformed into organs which combine administration with enterprise management, and the existing local special commercial companies should be dissolved and merged with commercial administrative departments. In certain large cities or areas, merger is not to be carried out if study shows this to be infeasible.

Second, dual leadership, with the relevant commercial departments of the Central Government as the mainstay and local authorities as the auxiliaries, is to be exercised over the purchase and supply stations (primary wholesale depots, large cold storage facilities and warehouses) established by the commercial departments of the Central Government in the cities or ports where production is concentrated. Purchase and supply stations (secondary wholesale depots) established by the commercial administrative department of a province, autonomous region or municipality directly under the Central Government are to be placed under dual leadership, with the commercial administrative department of that province, autonomous region or municipi-

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pality directly under the Central Government as the mainstay and the local government as the auxiliary.

Third, with the exception of certain large enterprises which local authorities consider it difficult to manage, all processing enterprises under the various commercial departments of the Central Government are to be handed over to local authorities and placed under the direct management of local commercial departments. However, in such processing enterprises regulations concerning production tasks, product specifications and standards, readjustment of productive capacity and regulations concerning processing fees<sup>56</sup> are still to be managed in a unified manner by the various commercial departments of the Central Government so that production throughout the nation will be coordinated.

Fourth, the State Council promulgates only four commercial planned targets each year. They are: (1) the purchase plan, (2) the sale plan, (3) the total number of workers and office staff and (4) the profit target. In addition, local authorities are allowed a 5 per cent leeway above or below the targets when carrying out the purchase and the sales plans. However, alterations in the figures for commodities under the plan, which are under the control of the various commercial departments of the Central Government, can be made only after approval is obtained from the central commercial departments concerned. If commercial departments are required to purchase products from local industries in excess of the targets set in the plan, they may do so with the approval from commercial departments at the higher level. Any alteration in the purchase or sales figures set in the state purchase plan—such as for grain, cooking oil and cotton—must be approved by the State Council. Under extraordinary conditions, the people's council of a province, autonomous region or municipality directly under the Central Government may make the alteration first and then report this to the State Council for the record. Hereafter, the profit target will gradually be transmitted only to the province, autonomous region or municipality directly under the Central Government. It will not be transmitted to the enterprises at the grass-roots level to prevent shops at the grass-roots level from engaging in activities in violation of commercial policies while at the same time fulfilling profit targets. Each central commercial department, however, should lay down measures to ensure that the enterprises at the grass-roots level do not lower the figures by themselves. Since this measure which transmits profit targets to the province, autonomous region and municipality directly under the Central Government (and not further downward to the enterprises at the grass-roots level) is a great and important change, it should not be carried out simultaneously throughout the country. Instead, it should



be implemented on a trial basis in one or two provinces and autonomous regions by the various central commercial departments, and then extended only after effective results have been obtained.

Fifth, total profits from enterprises of commercial departments of the Central Government are to be shared with local authorities. Provinces, autonomous regions and municipalities directly under the Central Government are not entitled to share profits obtained from grain transactions or the external sale portion of foreign trade, but they are entitled to share profits obtained from the internal sale portion of foreign trade. Supply and marketing cooperatives will continue to distribute bonuses among cooperative members and set aside accumulation and other funds. Revenues from catering and service trades are still to be collected by local authorities as before. Apart from items mentioned above, all profits from enterprises under central commercial departments are to be shared with local authorities in a ratio of 1:4—20 per cent for local authorities and 80 per cent for the central authority.

When commercial departments need to make purchases or sales at a loss to encourage production for disaster relief, the people's councils in provinces, autonomous regions and municipalities directly under the Central Government are authorized to allow local commercial departments to handle the matter. Any eventual loss may be listed as enterprise loss and covered by commercial profit.

Sixth, a division of labour is to be implemented in the control of commodity prices. Both the purchase and sales prices for agricultural and sideline products under planned and unified purchases are to be fixed in a unified manner by the various commercial departments of the Central Government. In non-major areas of production, however, local governments are to be entrusted to control the prices according to the price levels fixed by the commercial departments of the Central Government. This method is also applicable to purchase prices of scrap copper, scrap tin, and scrap iron and steel which come under unified purchase. Prices of goods in the third category<sup>33</sup> and goods which local authorities have listed as locally purchased in the unified manner are to be controlled by local governments, but the price levels as stipulated by the commercial departments of the Central Government should be taken as reference. In addition, a price fluctuation limit should be set by the central authorities once a year. With regard to manufactured goods, purchase prices of commodities under unified allocation by the State Economic Commission and for commodities distributed in a unified manner by various industrial ministries of the Central Government are to be controlled according to the allocation prices fixed by the state.

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Apart from these, purchase prices of all manufactured goods are to be controlled by the provinces, autonomous regions and municipalities directly under the Central Government according to the principles laid down by the commercial departments of the Central Government. The sales prices for manufactured goods in major markets and for important articles are to be fixed by the commercial departments of the Central Government, while in secondary markets and for more common articles, the prices are to be fixed by the provinces, autonomous regions and municipalities directly under the Central Government according to the price-fixing principles laid down by the commercial departments of the Central Government and in consultation with neighbouring regions. The central authorities and local authorities are to establish unified price control organs at all levels. The Central Government is to convene a price conference each year to fix prices for the whole year.

Seventh, foreign exchange is to be shared between the central authorities and the local authorities. To encourage local authorities to fulfill the state's export plans and strive to exceed the export quotas for certain industrial and agricultural products, the central authorities will allow local authorities to retain a fixed percentage of the foreign exchange. Detailed measures are to be found in a separate notification.

## **REGULATIONS ON THE IMPROVEMENT OF THE FINANCIAL MANAGEMENT SYSTEM**

*November 8, 1957*

In order to determine the revenue and expenditure for the central and local authorities and the sources of local revenue in such a way that the local authorities will have a certain amount of floating funds to cover special expenditures and they will be further encouraged to increase revenue and reduce expenditures for the purpose of promoting economic development, the State Council has now formulated the following regulations on the improvement of the financial management system.

First, local revenues will be generally classified as follows.

1. Local fixed revenue. The existing revenue from local enterprises and local institutions, the seven taxes that have already been allocated to local authorities (stamp tax,<sup>57</sup> interest tax,<sup>58</sup> slaughter tax, livestock transaction tax, urban real estate tax, culture and recreation tax<sup>59</sup> and vehicle and ship licensing tax) and other miscellaneous sources of local revenue are all to be retained by the local authorities.

2. Revenue from share of earnings from enterprises. When the above fixed local revenue of a province or municipality directly under the Central Government is insufficient to cover the normal annual expenditures, the deficit is to be made up with income from the share of earnings from enterprises. The income from share of earnings derives from 20 per cent of profits of enterprises assigned by the Central Government to a local administration as well as from enterprises from which, although under the jurisdiction of the Central Government, the local authorities share the profit. This 20 per cent is allocated as local revenue to the provinces and municipalities directly under the Central Government where these enterprises are located.

3. Income from share of adjustment revenue. When the above fixed local

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revenues and income from the share of earnings from enterprises in provinces and municipalities directly under the Central Government are insufficient to cover the normal annual expenditures, the deficit is to be made up with different percentages of the adjustment revenues. Adjustment revenues include the taxes on commodity circulation, goods, business,<sup>60</sup> income,<sup>61</sup> agriculture and income from government bonds.

If provinces and municipalities directly under the Central Government collect a large fixed local revenue exceeding normal annual expenditures, they should turn over a fixed proportion of the surplus to the Central Government. Those provinces and municipalities directly under the Central Government whose fixed local revenues plus income from the share of earnings from enterprises exceed normal annual expenditures should turn over a fixed proportion of the surplus to the Central Government. In some provinces and municipalities directly under the Central Government, even if the total adjustment revenues are allotted to the local authorities and added to fixed local revenues and income from the share of earnings from enterprises, the total amount will still be insufficient to cover normal annual expenditures. The shortfall will be made up by an additional appropriation from the Central Government.

Second, the method of calculating the normal annual local expenditures is as follows. Normal annual local expenditures are not to include major famine relief and other special expenses for filling up breached dykes and repairing dykes as well as state-planned large-scale population resettlement and reclamation of wasteland projects, because these expenses are not necessary for each province and municipality directly under the Central Government every year. Such expenses for any fiscal year will be covered by additional appropriations from the Central Government. Investment in local capital construction is also not to be included in the base figure for normal annual local expenditures, as capital construction should be planned between the localities by the Central Government and appropriations from the Central Government for each province and municipality directly under the Central Government do not remain the same from year to year. Therefore, investment in local capital construction, including investment for enlargement and upgrading of enterprises which have been assigned by the Central Government to local administration, will continue to be allocated by the Central Government through separate appropriations. Seventy per cent of the circulating capital added to the budget for local state-owned enterprises and joint state-private enterprises is also not to be included in the base for normal annual local expenditures. From now on, 30 per cent of all additional circulating funds required by those enterprises, including those circulating



funds by quota and circulating funds which are not managed by quota,<sup>62</sup> is to be covered by the localities and 70 per cent is to be covered by appropriations from the Central Government or through bank loans. All additional circulating funds required by enterprises that have been assigned to local administrations by the Central Government are to be covered by appropriations from the Central Government or by bank loans.

Third, the methods of calculating shared income and the percentages of shared income will remain unchanged for three years. If fixed local revenues and income from the share of earnings from enterprises are not enough to cover the normal annual expenditures of a province or municipality directly under the Central Government, the deficit will be made up with adjustment revenue. The portion of the adjustment revenue allotted to a province or municipality directly under the Central Government, accounting for a certain percentage of the total adjustment revenue of that province or municipality for the year, will become the ratio of shared adjustment revenue for that province or municipality. This ratio will remain unchanged for three years. For example, if income from the share of adjustment revenue that should be allotted to a province or municipality directly under the Central Government is 50 million yuan, and if the total adjustment revenue for the province or municipality is 500 million yuan, then the proportion of shared adjustment revenue allotted by the Central Government to the province or municipality is 10 per cent. In three years, the local authorities will receive 10 per cent of the adjustment revenue annually. Because the total amount of the adjustment revenue increases each year, the amount that each locality will receive will increase each year during this period.

If the fixed local revenue of a province or municipality directly under the Central Government already exceeds its normal annual expenditures, the surplus should be turned over to the Central Government. The portion of this revenue that is to be turned over will be determined by the percentage by which earnings are turned over. This percentage is also to remain unchanged for three years.

If changes are made in the taxation system or in the jurisdiction or administrative division of enterprises and institutions, the calculation of the above revenues and expenditures must be adjusted accordingly.

The basic figures for local revenues and expenditures will be the figures listed in the budget for the 1957 fiscal year. If a province or municipality directly under the Central Government fails to meet the projected revenue quotas set in the 1957 budget, its revenue and expenditure may be recalculated at the end of 1957 according to the actual figure, and ratios of shared revenue will be adjusted accordingly.

For the first year after changing this financial system, any increase in expenditures for education in a locality will be made up by separate appropriations from the Central Government, but in the following years this will be determined according to actual conditions. In the next three years, if the increase in wages exceeds 5 per cent in one fiscal year, the 5 per cent increase will be covered by the localities with their own revenue, while the amount exceeding 5 per cent will be made up with separate appropriations from the Central Government. However, the localities should strictly abide by the state regulations on wages and should not arbitrarily raise wages. If a locality suffers severe disaster and revenue for that year and the following year is insufficient to cover expenditures, the Central Government will provide a subsidy for the disaster year and will guarantee that in the following year the normal local expenditures are not less than those of the previous year.

Fourth, the regulations concerning the disposal of local surplus and the formulation of the local budgets are the following. When revenue exceeds expenditures as set in local budgets, the localities may use the surplus themselves. All local budgetary surplus at the end of the year will be retained by the localities for their use in the following year. In assigning quotas for the annual budget, local surplus from the preceding year will not be taken into account. The Central Government will not reduce the appropriations due to localities for capital construction or special expenses because of a locality's surplus from the previous year or the possibility of an increase in their current year's revenue. However, when the budget is formulated finally, it should include the surplus from the previous year together with other revenues, and the final budget is to be reported to the National People's Congress.

After the local financial management system is changed, the existing additional revenues of localities,<sup>63</sup> including the industrial and commercial surtax,<sup>64</sup> agricultural surtax and additional charges for urban public utilities, will all be managed separately by the local people's council instead of being included in the budget. As to the figure for the industrial and commercial surtax, it will be uniformly changed to a levy of 1 per cent of the total amount of the four taxes (taxes on commodity circulation, goods, business and income). If a city suffers a lower revenue due to the change in the way the addition to the industrial and commercial tax is made, it should be given preferential treatment in the budget. The agricultural surtax in regions producing cash crops may be raised appropriately. Separate regulations will be issued.

In addition to carrying out capital construction using appropriations

from the Central Government, the localities may launch some capital construction projects with their own revenue. To ensure a rational allocation of materials for capital construction and a balance in nationwide production, supply and sales of these materials, the localities should draft plans for this part of their investment in capital construction, including the portion to be appropriated by the Central Government, and submit them to the competent departments of the Central Government for examination and overall balancing so that they may be included in the comprehensive national plan for capital construction.

Fifth, regulations concerning limits to local financial reserve resources are as follows. The three types of revenue—local fixed revenue, income from share of earning from enterprises and share of adjustment revenue—all increase yearly. Since the percentages set for income from the share of earnings from enterprises and the share of adjustment revenue will remain unchanged for three years, the absolute revenue will increase each year during the same period. The main purpose of this change in the financial system is to enable the localities to have a certain amount of financial reserves. However, the increase in local revenue as a result of the improvement of the financial system must be limited in order to guarantee funding for key state construction projects and to allow the localities to have financial reserve resources. Accordingly, the total increase in local revenue as a result of this reform should generally be limited to around 2 billion yuan for a period of three years. (For example, assuming a yearly increase of 300 million yuan, the amount would be 300 million yuan in the first year, 600 million yuan in the second and 900 million yuan in the third, totalling 1.8 billion yuan in three years.) In addition, the budget surplus for the localities over a three year period might be in the range of 1 billion to 1.5 billion yuan. The two items combined would give the localities between 3 and 3.6 billion yuan in three years. It is both necessary and feasible to allocate these reserve financial resources to the localities. However, revenues turned over to the localities can be above or below the estimated figures. Since the improved financial system has not yet been implemented and we are inexperienced, we should follow in principle the proportioning set out in these regulations and leave the percentages unchanged for three years. However, if local revenues are far above or far below the stated figures after one year of execution, partial adjustments should be made based on the results of the first year's implementation.

Sixth, for autonomous regions, to accommodate their financial and economic growth, in calculating normal annual expenditures, only special expenses such as for major famine relief, filling up breached dykes and

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repairing dykes and expenses for state-planned large-scale population resettlement and reclamation of wasteland should be excluded, while expenses for local capital construction are to be included. Aside from fixed local revenues which will continue to be entirely allocated to the autonomous regions and shares of earnings from enterprises which will be allocated to the autonomous regions at the national rate of 20 per cent, all adjustment revenues collected in the autonomous regions will be allocated to those regions as their revenue. After such allocation is made, a specified percentage of the revenue in excess of expenditure, calculated from the basic figures for expenditure, will be turned over to the Central Government. Deficits will be made up with appropriations from the Central Government.

All other matters concerning the financial management system for autonomous regions as well as the definition of authority over financial management in autonomous prefectures and counties will be handled on the basis of the Provisional Regulations on Financial Management in National Autonomous Localities to be promulgated soon by the State Council.



## **REVIEWING EXPERIENCE IS AN IMPORTANT METHOD OF SELF-IMPROVEMENT**

*December 23, 1958*

Our achievements in capital construction in 1958 have been tremendous, but there have also been some serious mistakes.

The capital construction completed throughout the country this year will exceed a value of 22 billion yuan, representing an increase of more than 80 per cent over last year's 12.6 billion yuan. The progress in construction is very rapid. Meanwhile, our design and construction forces have had a lot of practice and have improved their professional skills considerably. These achievements should be acknowledged.

However, as compared with past years, more mistakes are now evident in the great increase in accidents since October of this year caused by poor quality projects, incurring many injuries. This is a warning which merits our serious attention. If corrections and remedies are not found now, the number of accidents caused by poor quality projects will continue to increase, and losses will be even greater if new factory buildings collapse after production has begun. It is not too late for us to take this matter seriously. The reason for calling this conference is that our great achievements have been accompanied by serious accidents as a result of poor quality projects. This year capital construction is making a "Great Leap Forward"<sup>65</sup> and many factory buildings have been constructed in the second half of the year. We must now overhaul the poorly constructed projects and we should regard corrective and remedial operations as an urgent task.

The reason for these serious accidents caused by poor quality projects and the consequent injuries lies in the various areas of design, construction, materials and managerial systems. These can all be boiled down to the following five points:

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Speech at an on-the-spot national conference on the quality of capital construction projects, held in Hangzhou. Comrade Chen Yun was then Minister in Charge of the State Capital Construction Commission.

1. Attention has been paid to constructing projects with “greater, faster, better and more economical results,” which is necessary, while insufficient attention has been directed to “better results.” In other words, attention has been paid to quantity to the neglect of quality, and the concept of “greater, faster, better and more economical results” has not been thoroughly understood.

2. Since the campaign to oppose conservative ideas, there has appeared a tendency to indiscriminately save materials, resulting in inappropriate use of substitute materials. We say that it is necessary to economize on the use of materials and we will continue to do so in the future, but indiscriminate saving is wrong. Likewise, it is necessary to use substitute materials, but it is wrong to use substitute materials where they are inappropriate. In the case of a large steelworks, if steel structures are needed, they should be used; if reinforced concrete structures are needed, they should be used. This is not conservatism, nor is it waste. This is realistic.

3. It is absolutely necessary to abolish unreasonable rules and regulations, but in some places even the necessary ones have been discarded. Unreasonable rules and regulations, where they exist, should be discontinued, but those which are reasonable and necessary should be retained. This is like the case of “emancipating the mind” and doing away with superstition. But science should not be regarded as something superstitious.

4. We have initiated mass movements in capital construction, which is important. We will continue to do so. But the departments in charge of professional work have slackened essential management, especially management of technical matters. This is wrong. It should be made clear that carrying on mass movements does not mean abolishing management rules. Instead, it means encouraging the masses to participate in management and to observe and improve management rules.

5. In many places, the construction force is not suitable for the task it has taken on in capital construction. The construction force is small, but the task is heavy. We don’t have enough skilled workers and lack necessary equipment. This year, in many places, construction teams experienced in construction for civil use have been engaged in industrial construction projects. We must be aware that their technical level is low. Only through awareness of this will we be able to assign tasks on the basis of feasibility, devote every possible effort to training technical forces and supply necessary technical personnel and construction equipment to the best of our ability.

The large-scale mass movement for production has been under way for only three months, as has the work in capital construction. These three months have been extremely important for us. We have achieved great

success, but at the same time, there have been many mistakes. This demands our attention. It is not too late to set things right. In fact, it is just the right time. Further neglect may lead to serious problems after production begins. It is hoped that this conference will help to change bad conditions into good ones by learning from them, so as to minimize accidents in the future.

Now I should like to raise another question. We should be keenly aware that the Second Five-Year Plan<sup>7</sup> period will be one during which our cadres will be acquiring substantial skills. During the period of rehabilitation<sup>66</sup> and the First Five-Year Plan<sup>28</sup> period, there were not many construction projects. At that time, we were merely pupils in terms of the construction of key projects; our teacher was the Soviet Union. The Soviet Union took care of almost everything, whether it was the design, construction, installation and trial operation of factories, or the handling of accidents. It will be different during the Second Five-Year Plan period. Although some factories will still be designed by the Soviet Union, which will supply key equipment, we shall design most of the factories and manufacture most of the equipment ourselves. This constitutes a big change. Now things will be done mostly on our own. Any poor performance will undoubtedly lead to a setback, or more likely, many setbacks. Of course, it is not pleasant to meet with setbacks and make mistakes. But we can learn from them and develop our skills. We must proceed this way, working on our own and being prepared for setbacks. It is impossible to master any skill without going through this process.

The problem at the moment is that we must remain sober-minded and be aware of the limitations in our ability. We do this not to dampen the enthusiasm of the masses, but to face reality. At present, not only is the ability of our young technicians limited, but the ability of our elder technicians is also limited; not only is the ability of the technical staff limited, but that of the managerial staff is also limited. Does it signify loss of confidence to acknowledge that our ability is limited? No, we definitely can do what others can, and we can do it very well, and even better. We should remain confident and be resourceful in this regard. We used to discourage the people from looking down upon themselves, and encouraged them to march bravely forward, doing away with superstition and displaying their initiative and creativity. This is absolutely correct. We will continue this encouragement. But we must be aware that our ability is still limited. We must advance prudently, reviewing our experience in the process. This is an important method of self-improvement.

## SEVERAL IMPORTANT QUESTIONS ABOUT ENSURING THE QUALITY OF CAPITAL CONSTRUCTION PROJECTS

*December 26, 1958*

The conference has lasted for four days, which is necessary and beneficial.

This year tremendous achievements have been scored in capital construction throughout the country. We affirm that the achievements are of primary importance, however, there were also some serious mistakes and shortcomings. If these are not corrected immediately, the consequences will be very grave.

Since last October, many accidents have taken place because of poor quality projects—quite a few recently constructed factory buildings have collapsed. The number of accidents and casualties this year has increased considerably. This year 435 workers in units under the Ministry of Construction Engineering<sup>67</sup> alone died, representing an increase of 220 per cent over last year's figure of 135. Of the 435 casualties, 117 died because construction structures collapsed, whereas last year only three died because of this; last year only 38 workers died because they fell while working high above the ground, but this year 78 died because of this. Of the 117 deaths caused by collapsing structures, 46 died because reinforced concrete structures collapsed, 50 died because wooden structures collapsed and 21 died because brick structures collapsed. These figures show that very serious accidents have taken place because of poor quality capital construction projects. Fortunately, since most of the factory buildings constructed this year are not yet operational and some of them have not been completed, if we can find the poor quality areas in these buildings, we still have time to solve the problems. I hope that this conference and the previous on-the-spot meeting held by the Ministry of Construction Engineering will alert the Party and the whole country to

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Summary report at an on-the-spot national conference on the quality of capital construction projects held in Hangzhou.



the need to take measures to solve the serious problems related to project quality.

Now I should like to speak on six points: (1) structure of factory buildings; (2) design; (3) construction; (4) building materials; (5) safety measures; and (6) leadership by local Party committees and mobilization of the masses. In discussing these points today, I shall focus on the construction of industrial enterprises, and in particular on the construction of large and medium-sized enterprises.

## I. STRUCTURE OF FACTORY BUILDINGS

1. The structure of factory buildings is important; it can be compared to a backbone. At present, the main tendency is to lower the quality of the structure. We must pay great attention to the structure because the structure determines whether or not factory buildings are solid and whether or not they are built soundly. Of course, viewing structure as a whole, this includes building foundations. For factories manufacturing heavy machinery, foundations are very important. In constructing factory buildings, we should give top priority to the structure.

At present, the main mistakes in construction projects throughout the country no longer pertain to conservatism or waste (of course, a few units are still making these mistakes) but rather, to poor quality structures in various factory buildings. In other words, reinforced concrete structures are used when steel structures should be used; brick and wooden structures and even brick arches are used when reinforced concrete structures are needed. This is an inappropriate way to economize, trying to do things too simply and too thriftily. This causes serious consequences and enormous waste. We should formulate regulations in this regard. For example, steel structures should be used in constructing steelmaking and hydraulic press workshops and workshops manufacturing heavy machinery. Moreover, solid foundations should be laid for these workshops. Since we engage in few of these projects, we should not begrudge the steel needed to construct them and should not economize too much. When a reinforced concrete structure is required, we should use such a structure. Brick and wooden structures should be used when appropriate. Under certain circumstances, brick and wooden structures will be adequate and can be used for small factories manufacturing machinery or factories manufacturing light industrial products where no cranes or only small cranes are used. At present, brick and wooden structures

are being used for some steelmaking workshops with a yearly output capacity of 50,000 tons. This is very dangerous. After we formulate regulations, we should of course guard against the past mistakes of conservatism and of waste, and we must also avoid raising the standards for structures inappropriately.

2. We are asking all Party committees of provinces, municipalities and autonomous regions throughout the country to conduct an overall inspection of newly built factory buildings beginning next January. If this is delayed, we will suffer great losses. The buildings to be inspected include newly built factories that have not begun production, factories that are under construction and the factories that were built in 1958 and have begun production. Also, plans for future factories will be reviewed. We should also conduct a check on the quality of buildings for civil use. At present we economize on too much building materials in constructing these buildings, so the walls are becoming thinner than ever as building standards are being lowered tremendously. Consequently, the quality of construction projects is lowered.

3. As for remedial measures for dangerous factory buildings, we must not hesitate to take such measures as should be taken, and we must make alterations in the structures that need to be changed. If we dismantle the dangerous structures, the losses will be much smaller than those incurred if these structures collapse, killing people and destroying equipment. However, we should remember that we should not take unnecessary remedial measures. After we conduct an overall inspection of all new factory buildings in an area, we can draw up a plan for remedial measures and then implement these according to plan.

4. The first type of arch roof truss designed by the Shanghai No. 2 Design Institute under the First Ministry of Machine-Building Industry<sup>68</sup> has a defect. Moreover, because there are few skilled workers, it is difficult to install this roof truss. However, where construction conditions are suitable, the factory buildings with this roof truss do not collapse. Therefore, we cannot say that such a roof truss should not be used in any factory building. Accidents have occurred in some places (for instance, the Hangzhou Banshan Iron and Steel Works) where an alternate roof truss has been installed. Since good roof trusses are available, for the time being we should not use this roof truss very widely and we can make determinations only after it has been used over a period of time. At present, many of those arch roof trusses have been used in Shanghai, so it will take some time to replace them. In other words, on the one hand we should use these arch roof trusses cautiously, and on the other hand we should make preparations for using other good roof trusses.

5. In the days to come, we should popularize throughout the country the use of the second, third, fourth and fifth kinds of roof trusses proposed

at the conference, according to varying construction requirements and as appropriate for local conditions. We should quickly research which roof trusses should be used in specific locations and in different types of factory buildings. To facilitate this, the Ministry of Construction Engineering should immediately hold a special meeting in Shanghai to study different roof trusses and make proposals concerning their use.

## II. DESIGN

1. Design is the key to capital construction. After the decision to build a factory is made, the design process is crucial. The design determines the quality and practicality of the factory constructed. Construction should proceed according to the blueprint and must comply with the design. Generally speaking, many comrades on Party committees (as well as those working in economic departments) have an inadequate understanding of the importance of the design work. They tend to attach importance to construction to the neglect of design work. This kind of thinking does not conform to actual construction requirements and should be changed. Taking the country as a whole, we are not providing adequate guidance for design work. At present our country has about 200,000 construction designers who were trained after 1952. They constitute a valuable foundation for our design work. But we must recognize that these people are inexperienced and that the quality of their work is low. The leading cadres should take responsibility for helping them to increase their professional competence. The designers should be aware that they shoulder grave responsibilities to the country and the people and that they are inexperienced and lack professional competence, and that therefore they need to work very conscientiously in order to increase their skills.

2. We must continue to encourage creativity in design work and at the same time advocate a spirit of seeking truth from facts. We should oppose the tendency of sticking to conventions and advocate a spirit of daring to think, to speak out and to act. Without this spirit, we will not make progress. However, creativity must be joined to a spirit of seeking truth from facts. Otherwise, we will not be able to truly progress. Now, when we mention the need to seek truth from facts, it is very likely that some designers may come out with sarcastic remarks. This is because we have encouraged the masses to be creative in their work and it will be hard for them to avoid mistakes in doing so. To risk creating anew is better than to stick to conventions.

Meanwhile, we should relate to those young comrades who dare to think and to act that if they display creativity and at the same time proceed from reality, they will be able to make progress more rapidly than ever.

3. Design work cannot proceed without surveying and construction cannot begin without a design. This is still the procedure for capital construction. We should not merely seek speed—more haste, less speed. If construction begins without surveying or good design work, and if the construction work must be repeated when the foundation is found to be faulty, great losses will be incurred. Therefore, when Party committees and the departments in charge of capital construction assign tasks to the design departments, they must accurately estimate the amount of time required for the design work and should not force the designers to rush their work. Since undue emphasis is laid on completing design work quickly and hastily, this allows no time to survey and gather data necessary for the design. This is detrimental. Of course, for various reasons, during the period of the First Five-Year Plan<sup>28</sup> the design work proceeded slowly. At this point we must not repeat that way of doing things. However, we should recognize that at present the most serious mistake would be to emphasize speed, and thereby produce only very simple designs.

4. The design should be implemented only after careful calculation and taking into consideration actual conditions. In principle, standard designs can be used, and this is often necessary. But these designs should not be used or modified at random without careful planning. Accidents are being caused by poor quality projects because previous designs are utilized without accurate calculation.

5. Design drawings should not be oversimplified. In the past there were often many unnecessary drawings that no one read. This state of affairs should be changed. Current drawings are oversimplified to the extent that sometimes the construction workers cannot understand them and complain that they are like “books from heaven without characters.” This also must be changed. Design drawings must meet the actual needs of construction work.

6. Design work should proceed in two stages. At present, some designs are too simple. In some cases, construction is carried out according to a sketch only. In other cases, it is only after drawings have been provided to construction workers that they can resume construction. This state of affairs must be changed. Of course, while the design work is being done, we can construct simple projects or projects identical to those that have been previously constructed. However, generally speaking, we should proceed according to formal procedures for design work.



7. The design must be approved by competent departments. First of all, the designers should determine whether the design is appropriate, and then the masses (workers on the construction site and some workers engaged in production) should discuss it together. If the design is not initially examined in this way but just submitted to higher authorities for approval, this whole process often becomes merely a formality. At present, many designs do not go through any process of discussion or approval. Worse still, the design goes from the designer or designing group straight to the construction department. This is very dangerous. We request that designers should try their best to draw up several plans for an important project, just as we plan alternate routes when constructing railways. If they cannot work out several plans for comparison, they should provide explanatory notes so that people can understand the design and do the comparative studies themselves. In the days to come, departments in charge of different trades at different levels should examine and approve various designs. This should not be done by only one department. The State Capital Construction Committee<sup>69</sup> and the Ministry of Construction Engineering will work out concrete procedures for approving designs.

8. To enable designers to make progress, we must apply the three-in-one combination, that is, fostering close cooperation between Party and government cadres, designers and workers (including workers responsible for construction and production). New technicians should join in with experienced ones. At present, junior designers constitute the majority of the design contingent and the backbone of the design force. Since they are young, they may have shortcomings. But they have an advantage because they dare to think, speak out and act, and they do not feel overburdened with responsibilities. These young people will eventually replace the older ones, so they are our hope for the future. This is the case not only in design departments but also in all other departments. Therefore, older people should help young people and value their vigour and vitality. Most veteran technicians have substantial ability and learning, so young people can learn from them. Veteran and young technicians can debate with each other and make criticisms among themselves for the sake of unity and to improve their work. In short, all the older technicians and young ones who are willing to engage in mass construction undertakings should unite so as to build our country and leave the imperialists, who have been bullying us, far behind. This is our common objective.

9. Design must consider production. A well-designed factory is intended for efficient production, so the construction site or factory or mine is the best place for examining and correcting the design. To ensure that design

takes into account production, we must take two measures in a planned way. First, designers should go to the construction site or to the factory to review the design there, together with workers and technicians. Second, designers should rotate the technicians in the factory or mine and on the construction site by groups. These two measures can help to improve design work.

10. Designers should review their experience and discuss this with other designers. In the last nine years, particularly this year, we have accumulated a wealth of experience in design work. We should review and share this experience. Only by frequently recognizing their mistakes and shortcomings can designers learn from experience and improve their professional competence. The State Capital Construction Committee decided to hold the Second National Conference on Design next spring. First, the coordination regions<sup>70</sup> can hold conferences on design, and then we can convene a national conference. We have not decided how to hold the conference. The construction committees in all provinces, municipalities and autonomous regions are asked to notify local design institutes (including those directly under the Central Government) to prepare a report on their design work by January 20, 1959. The report should be submitted to the local Party committee, to the central department in charge of design and to the State Capital Construction Committee respectively. In addition, we should hold discussions on design at regular or irregular intervals by trades, types of work and areas. At these meetings designers can share their experience so as to raise their level of competence in design work. This is essential.

### III. CONSTRUCTION

1. Adequate preparations must be made for construction. We must draw up construction plans for general projects and organize personnel to design large projects. At present, adequate preparations have not been made for projects under construction. The necessary roads at construction sites are often inadequate. If there is a fire, the fire engines have no access to the sites. Preparation for construction is necessary; good preparations facilitate, rather than hinder, construction.

2. The technicians and workers should understand the drawings for the construction project and the intent of the design so they can improve the construction work. They used to do that, but later this method was abandoned. Now we should restore it. Moreover, the design department should provide relevant data to the construction department concerning important

aspects of the design.

3. The construction department should not modify important parts of the design that affect structure. When it is necessary to do so, they should secure prior approval from the design department. Sometimes it is unavoidable to change materials, but the construction department should first make careful calculations and obtain approval from the chief engineer at the construction site to ensure that the quality meets the requirements set in the original design. Quite often it is necessary to make some changes in a design drawing because this serves to correct mistakes or impractical aspects of the design. However, the construction department must not randomly modify important aspects of the design that affect structure. If there is a need to modify these, approval should be obtained from the design department. No change should be made without the approval of the design department.

4. Regulations ensuring the quality of projects should be restored or established. Many irrational old rules and regulations must be abolished. It was correct for the Party Central Committee to make that decision at the Nanning Meeting<sup>71</sup> and at the Chengdu Meeting.<sup>72</sup> However, in carrying out that decision, some rules and regulations necessary for ensuring the quality of projects were abolished. That was a mistake. The Central Committee has issued a circular, stating that no rules or regulations relating to technology should be abandoned. However, people are not paying great attention to the circular. This is wrong. At present, all localities should restore or establish rules and regulations that ensure the quality of projects. They should modify the irrelevant ones. However, they should restore correct and sound ones. At this conference, the Ministry of Construction Engineering made a suggestion concerning which rules and regulations should be restored. All provinces, municipalities and autonomous regions should study this suggestion and carry it out. If they hold different views, they can consult with the Ministry of Construction Engineering.

5. Self-examination and mutual examination among the masses must be combined with examination conducted by special organs. We should understand that self-examination and mutual examination among the masses are necessary and should not be abandoned. However, we cannot abolish examination conducted by special organs just because there is self-examination among the masses. These should be combined. At the same time, in doing their work, special examination organs should fully follow the mass line.

6. Wherever the system of reviewing and approving projects has been abolished, it should be restored. Because this system is an efficient one for assessing the quality of projects, its useful aspects should be restored and preserved.

7. The training of office staff and workers, particularly skilled workers, should be improved. This year many additional construction workers were employed. The number of construction workers under the Ministry of Construction Engineering alone increased by about 700,000 over last year to 1.2 million. This is a large number. However, various types of skilled workers have received only short-term training. This year the capital construction tasks are very arduous, and next year construction tasks will be even more so. There are many new workers. Because of all this, we must improve training for workers. Generally speaking, in the first quarter of a year the capital construction tasks will not be heavy, so we must seize the opportunity to train workers. The local authorities should work out practical methods for training workers. In the future, whenever construction workers have free time, they should receive training. We must use every means to train workers, especially those doing technical work, including electric welders, reinforced concrete workers, crane operators, loaders and erectors. As workshops are being built and equipment is being installed in large enterprises, including heavy steel rolling mills and large machine plants, workers from related enterprises throughout the country should assemble to receive on-the-spot training so that they can work more efficiently after they return. We should expect that there will be a shortage of installers and workers needed to construct large enterprises next summer. Therefore, we should adopt the above methods and lose no time in training workers.

8. We should correctly understand rapid construction. Because a few accidents have occurred, many people doubt whether rapid construction is wise. In construction departments, some leading cadres, workers and office staff have an incorrect understanding of rapid construction. Therefore, we should clarify the meaning of rapid construction and rectify the workers' and staffs faulty understanding. Rapid construction is a new way of construction. It is hard to say whether this term clearly designates all of its components, with which we must become acquainted. The State Capital Construction Committee once discussed this issue. It considers the main components of rapid construction to be as follows:

(1) We should contract the front and concentrate a superior force to fight the battle of annihilation, so to speak; we should not divide the forces for defence of passes and disperse them to fight the battle of attrition. What this means is that we should complete the construction of projects one by one.

(2) In erecting a workshop or building, we should group special work teams with specific divisions of labour, including carpenters' teams and plasterers' teams, into combined work teams so that they can accomplish



many types of work. In constructing a project, they should shoulder specialized responsibilities, working alternately and using parallel and flow operations.

(3) Much more effort is necessary to match prefabricated components.

(4) At construction sites we should exercise unified leadership. The Party committee or construction committee on the construction site should exercise unified leadership in every type of work, over all parties, Party organizations, administrative departments, trade unions and Youth League organizations.

Experience demonstrates that the above methods help shorten the duration of a project. These are practical methods for achieving greater, faster, better and more economical results. However, some leading cadres, workers and office staff responsible for construction have an inadequate or even incorrect understanding of the components of rapid construction and think that rapid construction simply means focusing on speed. Therefore, construction commences without adequate preparation. Labourers work hard for several days and nights, and too many people participate in the construction work. Since undue emphasis is placed on speed, the quality of the project is affected, causing accidents. Leading cadres primarily should be held responsible for these mishaps because they have not explained clearly the various aspects of rapid construction; and because they have failed to stress the need to guard against the tendency to merely seek greater, faster and more economical results to the neglect of better results, and to seek quantity to the neglect of quality. Accidents caused by poor quality projects are not due mainly to rapid construction; however, the misconception that rapid construction merely involves seeking speed influences not only rapid construction projects, but has a wider influence. It is necessary to do some experimentation with “launching satellites”<sup>73</sup> in order to observe construction speed. However, in the future we should not utilize this method of “launching satellites,” but should further experiment in a planned way. At present, our task is to explain what rapid construction really means and at the same time to correct the misconception that it is designed merely for speed. After we correct errors and review our experience, we can extend rapid construction gradually so that it will improve and develop systematically.

9. We should increase the amount of necessary construction machinery and equipment. This year investment in capital construction will reach over 22 billion yuan. Next year planned investment will reach 36 billion yuan, a rapid increase. Moreover, the number of large, medium-sized and assembly factory buildings will increase considerably. Construction requires appropriate machinery and equipment, but the existing construction machinery and equipment are inadequate and cannot meet the needs of capital construc-

tion. Therefore, while taking full advantage of our present machinery and equipment and of some domestically produced machinery, we must add more machinery and equipment produced with Chinese and foreign methods. Of course, we can only add to our equipment gradually, and we should try to produce additional equipment through self-reliance.

#### IV. BUILDING MATERIALS

1. Only cement, reinforcement bars, welding rods, sand, stone, bricks, tiles and other building materials that are up to standard should be used. In the future we must restore or establish organs for the purpose of examining the quality of building materials and install some necessary experimental equipment at major construction sites.

2. The factories manufacturing building materials must be responsible for quality control. They should market only those products that are up to standard.

3. When cement leaves a factory, it must be examined. Low-grade cement must not be used in place of high-grade cement. The cement should be of sufficient weight.

4. The steel that is produced with inferior iron must not be used in the important parts of capital construction projects because it contains much sulphur and phosphorus. But it can be used in parts of secondary importance. For example, it can be used to produce small hardware for doors and windows.

5. In building dam projects for large and medium-sized hydroelectric power stations, which have a great bearing on people's lives and safety, we must pay particular attention to quality and safety. The reinforcing bars, cement and other building materials used in building these projects must meet the quality requirements set in the design. After the comrades present at this conference go back, they must make special reports on this matter to Party committees of provinces, municipalities and autonomous regions, because this is of great importance.

6. We must continue to oppose conservatism (after we emphasize quality, conservatism may reassert itself). In designing and using building materials, we must guarantee the necessary safety coefficient. Construction departments should not manipulate the safety coefficient set in the design because if accidents occur in special cases of strong winds and earthquakes, this will be dangerous.

7. If there are no building materials that are up to standard for key parts of projects, we prefer that construction be delayed to wait for superior building materials, and we should never undertake construction carelessly. Losses caused by using building materials that are not up to standard will be far greater than would have been the case if we had stopped construction to wait for proper building materials.

8. We should continue to use new building materials and substitutes that are up to standard. However, these must undergo much experimentation and appraisal, and we should not encourage rash use of these.

## V. SAFE OPERATIONS

This year there were more casualties during construction work than last year. Not counting the casualties caused by the collapse of project structures, there were 318 casualties incurred by accidents during construction in the departments under the Ministry of Construction Engineering, representing an increase of more than 100 per cent over last year's figure of 132. This should alert us to take the following measures:

1. Restore all safety regulations. The Ministry of Construction Engineering and the Ministry of Labour can work together to examine and modify ineffective safety regulations.

2. Conduct another safety education programme among new and older workers, and combine safety education with education in technology and quality.

3. Set reasonable work and rest schedules for construction workers. At present, many capital construction units prolong work hours; this must be changed. The Ministry of Construction Engineering and the Ministry of Labour should consult and set daily work hours according to varying locations and seasons. From now on, we must see to it that workers have eight hours for sleep every day, and starting in the next few months, those working high above the ground should work no more than eight hours a day. If this is not feasible at present, they should not work more than ten hours at most. If there is a shortage of hands, new workers should be trained. This problem will not be solved if we prolong work hours. Fatigue causes accidents. It is the responsibility of leading cadres to show concern for the workers' safety.

4. Workers must be equipped with the equipment necessary for safe operations, for example, safety belts.

## VI. LEADERSHIP BY LOCAL PARTY COMMITTEES AND MOBILIZATION OF THE MASSES

Capital construction cannot proceed smoothly without the leadership of local Party committees or mobilization of the masses. After comrades from local capital construction committees return, they must report on the issues discussed at the conference to Party committees in provinces, municipalities and autonomous regions, and they should request Party committees to hold special meetings to discuss these issues. To prevent accidents caused by poor quality in capital construction projects, the Party committees in all provinces, municipalities and autonomous regions are asked to strengthen leadership in capital construction and accomplish the following things:

1. Pay attention to the quality of projects. At present, the main tendency is to pay attention to greater, faster and more economical results to the neglect of better results, and to quantity to the neglect of quality. We must attach equal importance to both.

2. Pay attention to the design. At present, the Party has not paid enough attention to design. We must recognize that design is the key to capital construction and that it is of paramount importance. Leading cadres should attach the same importance to design departments as they do to construction departments.

We must recognize the need to use both indigenous and foreign ideas in our design work. The State Capital Construction Committee once discussed this issue. We hold that a design created by combining indigenous with foreign methods has two characteristics. First, it is a creative design that is created with a view to China's specific conditions and by taking into consideration foreign experience. It is just like a doctor trained in Western medicine who has studied traditional Chinese medicine. This individual is neither a doctor practising traditional Western medicine nor a doctor practising traditional Chinese medicine. Instead, he or she is a new kind of doctor. Second, in most enterprises only simple equipment with a low level of mechanization is used. At present, we use only this type of equipment because this is what is available and we can utilize a large quantity of such equipment. Because of this, some people have a misconception about the concurrent use of indigenous and foreign methods; they think that the more indigenous the method, the better, or that the indigenous method is primary. If the indigenous method is primary, this only means that it was developed out of China's actual conditions. That is all right. But to assume that the small blast furnace is primary and that the Anshan Iron and Steel Company is secondary is a mistake. As I said before, we should construct buildings with



steel or reinforced concrete structures whenever necessary; if we use brick and wooden structure or brick arches, this is dangerous and will cause accidents. We must gain a correct understanding about the concurrent use of indigenous and foreign methods in order to achieve greater, faster, better and more economical results.

3. Conduct an overall check on the quality of all newly built projects. Wherever remedial measures are found to be necessary, they should be initiated immediately.

4. Basically stop recruiting new workers for capital construction departments because there are already enough, and concentrate instead on training workers and improving their technical competence.

We should continue to launch the mass movement in capital construction and should never doubt it on account of the accidents caused by poor quality projects. Only by truly initiating the mass movement and calling people's attention to quality can we reduce the number of accidents. We should continue to encourage cadres to participate in labour and encourage workers to participate in management. At present, in conducting the mass movement, we should pay more attention to the following points:

1. While emphasizing the need to achieve greater, faster and more economical results in construction, we should initiate a movement to improve the quality of projects so as to successfully carry out the policy of achieving greater, faster, better and more economical results.

2. We should conduct a movement among workers to discuss the establishment of all kinds of systems of technical management. We must extensively mobilize the masses to first discuss the necessity of doing so and thereafter to determine the specifics of the systems deemed necessary.

3. We should conduct a movement to study technology and raise our technical level.

4. We should initiate a movement for education in safety.

My objective in discussing these six issues is to help reduce the number of accidents caused by poor quality in capital construction, solve problems related to safe operation, accomplish next year's capital construction tasks and improve our work. These can be accomplished only under the leadership of local Party committees and by conducting extensive mass movements. We hope that the on-the-spot conference concerning the quality of capital construction projects held in Hangzhou will be an important turning point, marking a change in the quality and safety of capital construction operations for the better.

## LETTER TO COMRADES IN THE CENTRAL FINANCIAL AND ECONOMIC GROUP<sup>74</sup>

*April 1959*

Recently I have come up with several ideas about the market and on planning methods. Though they are not mature yet, I shall now present them to you for reference when you are considering these issues.

First, I shall talk about the issue of alleviating shortages in the market.

1. We must consume and use grain economically. After the summer and autumn harvests last year, because of a too high estimate for grain output, we ate and used too much grain. Since the beginning of this year, urban and rural sales of grain has continued increasing (this year<sup>39</sup> we shall sell 9 billion kg more grain than we did last year) and the grain reserves have been decreasing. There is now a widespread shortage. Therefore, I think that no matter how much grain production increases this year, we must eat and use it economically and restrict the sale of grain. It is very important for us to pay close attention to this point. In our country, the problem of the inadequate grain supply has yet to be solved. If the grain problem were solved, the entire market would be stable; but when grain supply is tight, so is the market. Grain continues to be the most important item for keeping the market stable. We must do a good job in this field.

2. We must manage our supplies of pork, chicken, duck, eggs and fish. A shortage of pork, chicken or duck in urban markets is very different from a shortage of manufactured goods. In improving people's lives, food is the top priority. It would be very difficult to make up for a shortage of 1 billion yuan worth of pork, chicken and duck by putting other commodities on the market. We cannot alleviate the shortage in the market even if we make it up with 1 billion yuan worth of manufactured goods. Why? If we had 1 billion yuan worth of pork, chicken, duck, eggs and fish and used some of this to make processed foods, altogether it would then be worth 1.4 billion to 1.5 billion yuan in commodities. Today, almost all cigarette and liquor shops and restaurants are run by the state, so related products will soon

become a primary means of withdrawing currency from circulation. This year, there is about a 4 billion to 5 billion yuan difference between the supply of goods on the market and people's purchasing power. It would be very helpful in making up this difference if we could find a way to increase the quantity of pork, chicken, duck, fish and eggs by a value of 1 billion yuan, i.e., to add 10 million pigs, 200 million chickens and ducks, 100 million kg of eggs and several dozen thousand tons of fish to the supplies on the market. That would alleviate market shortages to some extent. To organize the supply of pork, chicken, duck, eggs and fish, we must start with production and work out some effective methods. We can simultaneously make use of the state, the collective and the individual to develop pig, chicken and duck raising. Since state farms and people's communes do not have much experience in raising them, it would probably be the most reliable and efficient method to allow peasant households to raise them. Within communes, private plots should be arranged well so that the households raising animals will have enough feed. In addition, we should allocate a certain amount of feed grain for these households. We must improve management, conscientiously perfecting our work in this regard. I suggest that the Fifth Office of the State Council<sup>24</sup> and the Ministry of Commerce separately convene professional meetings in the near future concerning raising pigs, chicken and ducks and the production of vegetables, and tackle this work seriously. Even though this will not solve this year's problems, it will improve market supply next year.

3. We should make special arrangements for the production of daily necessities. When we plan industrial production, we should allocate raw and semi-finished materials for the production of daily necessities. Those factories that used to produce household items but are now producing other items should "come back to the team" and resume production of household items. It is precisely because handicraft cooperatives have become local state-owned factories or cooperative factories, which means that their production tasks now come under unified arrangement and that they cannot manage production themselves, that the production of a great variety of items has ceased. At this time we should organize the return of these factories to their original fields of production. The factories can remain state-owned or cooperative factories in name, but they should function under the leadership of local industrial departments. They should practise independent accounting and be held responsible for profits and losses, which will provide incentives for handicraftsmen and will encourage them to increase the quantity and variety of hand-crafted goods. As to the original handicraftsmen in rural people's communes, we should ask the communes to help them overcome difficulties

concerning raw materials and markets so as to increase the production of different kinds of hand-crafted goods in the countryside.

4. We should reduce people's purchasing power and carefully cut down on the number of excess workers recruited last year. If enterprises increase employment, purchasing power will increase accordingly. If we increase the labour force in the countryside, we do not have to worry that purchasing power will increase accordingly, because the supply of agricultural and sideline products will also increase. There are two possibilities for urban industry. One is to increase labour force normally and also increase the production of commodities so we can roughly balance available goods with increased purchasing power. The other is to increase the labour force excessively, which would result in a decrease in labour productivity with little change in commodity production, but in an increase in purchasing power. This would only increase the demand for goods in the market and would be disadvantageous for both production and the market. In 1956 we recruited too many workers, which resulted in market shortages. So we have already had experience in this regard. We must make significant cuts in the more than 10 million workers that we over-recruited last year and ask them to settle in the countryside in order to reduce the people's current purchasing power. From now on, we must strictly limit the number of workers. The increase in the urban labour force must be controlled by the Central Committee of the Party and by the Party committees in provinces, autonomous regions and municipalities directly under the Central Government.

5. With regard to the transportation shortage, we should give top priority to providing the transportation necessary to bring goods to the market. In particular, we should make adequate arrangements for short distance transportation. When both industry and commerce experience transportation needs, we should arrange such transportation as horse carts, pushcarts and wooden sailing ships to meet the needs of commerce first so as to increase the flow of commodities between urban and rural areas. Industry should not compete with agriculture and commerce for short distance transportation resources.

Next, I shall talk about the methods of drawing up the plan for 1960.

1. With regard to the industrial production targets for next year, we should first consider the total capacity of existing equipment of all enterprises at the end of this year (including power, transportation, etc.) as the starting point for drawing up a precise plan and for determining production targets for next year which we can be assured of reaching. In addition, we should determine targets to strive for in industrial production next year on the basis of both the production capacity of our existing equipment and the produc-



tion capacity that we can count on adding as a result of capital construction next year. In this way, we can base the production plan for next year on a prospective and comprehensive view. A production target based on the capacity of equipment will be calculated on the basis not only of the capacity of major equipment but it will also take into account the capacity of other equipment of enterprises as a whole as well as each link within a trade. For example, when considering the production capacity of the iron and steel industry, we should calculate not only the production capacity of blast furnaces, open-hearth furnaces and converters, but we should also consider the production capacity of mining, coking, refractory materials and steel rolling facilities. We should calculate not only the production capacity within a department but also the production capacity of the other departments concerned, such as the production capacity of coal, power, transportation and of other departments. In short, we should make comprehensive calculations.

2. The problem of several weak links in industry, such as the big difference between production of and demand for copper, aluminium, petroleum, wood and rubber cannot be solved in the near future. For industrial development in a large country like ours, we cannot rely merely on imports to make up the difference between production and demand because the demand for these essential materials is too great to satisfy through imports alone. Therefore, when we formulate the plan each year, we should pay attention to the production of these materials, strengthen these weak links and aim at reducing the difference between supply and demand. We must solve these problems step by step.

## THE QUESTION OF SETTING REALISTIC TARGETS FOR THE PRODUCTION OF IRON AND STEEL

*May 11, 1959*

There are now two outstanding problems in industry. The first is that the plan for the allocation of 2.5 million tons of rolled steel in the second quarter of this year, approved at the Shanghai Meeting<sup>75</sup> in the spring of this year, cannot be fulfilled because of low production—only 2.5 million tons of rolled steel will be available for allocation. As a result, fulfillment of the original plan for industrial production and capital construction for the second quarter of this year will have to be postponed for a month or even longer. The other problem is that the plan has been changed time and again, causing chaotic production in enterprises. Some say that the situation in production in the recent period is “work, work; stop, stop; work, work; stop.” Many departments, factories and construction units share a common desire for stability, and they all request that a timely decision be made on the amount of rolled steel that can actually be delivered to them so that they can plan production.

Because of the above situation, at the meetings of April 29 and 30, the Secretariat of the CPC Central Committee instructed the Central Financial and Economic Group<sup>74</sup> to study three issues: (1) setting two targets for iron and steel production this year: one a reliable target and the other a target to strive for; (2) allocating rolled steel for this year according to the reliable figure which can be definitely met; and (3) cutting down on some construction projects if less rolled steel is to be allocated. We have now decided in principle to cut down on capital construction and to guarantee the needs of production, the market and maintenance, as well as to guarantee absolutely necessary capital construction projects for petroleum, chemical and other industries. The general idea is to stabilize our position and then go forward, so that we can

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Speech at a meeting of the Political Bureau of the Central Committee of the Chinese Communist Party.

avoid being continuously on the defensive.

After the Secretariat meetings, the Financial and Economic Group listened to six reports by the Ministry of Metallurgy (on the general situation in iron and steel production, the production of ore, coke and refractory materials, on iron and steel smelting and the variety of rolled steel), and then held a discussion. Now I should like to divide my talk on the reports of the Ministry of Metallurgy and the discussion by the Financial and Economic Group into two parts: one is the question of both a reliable target for the production of rolled steel and a target to strive for; the other is several issues on which we now need to focus attention.

# I. THE QUESTION OF A RELIABLE TARGET FOR THE PRODUCTION OF ROLLED STEEL AS WELL AS A TARGET TO STRIVE FOR

The Ministry of Metallurgy put forward three figures for an annual rolled steel production target: 9 million tons, 9.5 million tons and 10 million tons. The annual steel production figures would then be 13 million tons, 14 million tons and 15 million tons respectively. The Ministry of Metallurgy also put forward an annual figure of 16 million tons of steel, but gave no detailed explanation for this figure.

In discussing this, the annual targets put forward by the Heavy Industry Planning Bureau of the State Planning Commission were 8.5 million to 9 million tons for the reliable target for the production of rolled steel, and 9.5 million tons for the target to strive for. Corresponding to this, the reliable annual target for steel production would be 12.5 million to 13 million tons, and the annual target to strive for would be 14 million tons. The reliable target put forward by the Metallurgy Bureau of the State Economic Commission was 13 million tons and the target to strive for was 15 million tons. These figures are all smaller than those put forward at the Shanghai Meeting. The annual targets set at the Shanghai Meeting were 11.5 million tons of rolled steel and 16.5 million tons of steel.

Several comrades in the Financial and Economic Group who often attended the report meetings referred to above—[Li] Fuchun,<sup>76</sup> [Bo] Yibo,<sup>32</sup> Zhao Erlu<sup>77</sup> and I—all agreed that the reliable annual target for the production of rolled steel should be fixed at 9 million tons, with the

annual production target for steel to be set at 13 million tons. As for the figure to strive for, we need to wait until we have heard the reports from the ministries of coal, machinery, railways and so on, so we can get a clear idea of the production and transportation capabilities of these departments before we study the question further. Therefore, we shall not discuss this for the time being.

Why is rolled steel production targeted at 9 million tons annually and why do we take this as a starting point? There are several reasons.

First, considering all the links in the iron and steel industry, this target is relatively realistic. Though it will not be an easy task and great effort is needed to reach it. In order to produce 9 million tons of rolled steel annually, we shall have to produce 13 million tons of steel and 20 million tons of iron (this includes 13 million tons of iron for steel-smelting, 5.5 million tons for casting and for increasing inventories, plus 1.5 million tons to make up for potentially low-quality iron). Now we shall look at five aspects of steel production: ore, coke, refractory materials, smelting and transportation.

(1)Ore: It takes 3.5 tons of ore to produce 1 ton of iron. From 70 million tons of ore we can produce 20 million tons of iron. The existing 14 large enterprises with the necessary machinery and equipment and railway transportation are capable of mining 53 million tons of ore this year (34.6 million tons were mined last year). Among the 19 existing medium-sized mining enterprises, six have semi-mechanized equipment and railway transportation, while the other 13 utilize manual extraction and lack railway transportation. This year, we have equipped them with some machines, used pneumatic tools to drill and explosives to blast and laid light track railways. So we can now mine a total of 8 million tons of ore during the year (6.8 million tons were mined last year). The existing 214 small mining locations using indigenous methods are able to mine a total of 10 million tons (6.06 million tons were mined last year). Totalling the output from large, small and medium-sized enterprises, we can produce 71 million tons of ore this year and we can ship 70 million tons.

In order to mine 70 million tons of ore this year, we need more air compressors, power shovels, hoisters, ball grinder and explosives. Some of the equipment and materials have been ordered, but not all has been made available.

According to our calculations, we need 2.1 million tons of rich ore (containing more than 58 per cent iron) for use in open-hearth furnaces this year. We can produce only 1.7 million tons, leaving us 400,000 tons short. In order to make up the difference, we are planning to ship an



additional 100,000 to 150,000 tons of rich ore from Hainan Island; we shall produce 300,000 tons in Anshan by the pelletizing method (roasting pelletized fine ore which contains over 60 per cent iron).

Considering the circumstances outlined above, mining 70 million tons of iron ore in one year will not be an easy task since we shall have to do capital construction work on the large and medium-sized mines and provide them with a great amount of equipment. But judging from the 17.8 million tons of ore shipped out in the first quarter of this year (7.4 million tons was from small-scale operations using indigenous methods), it will be possible to attain the goal of 70 million tons of ore as long as we intensify our effort in this regard.

(2) Coke: It takes on average 1.5 tons of coke to produce 1 ton of iron; it takes on average 1.5 tons of washed coal to produce 1 ton of coke; and it takes on average 2 tons of coking coal to produce 1 ton of washed coal. To produce 20 million tons of pig iron, we need 30 million tons of coke, the equivalent of 45 million tons of washed coal or 90 to 100 million tons of coking coal.

Washed coal is the key to improving the quality of iron and steel. The quality of some iron and steel is poor because of too much sulphur, 70 to 80 per cent of which is due to sulphur in coal which was not washed out. Therefore, we must wash the coking coal well in order to avoid a waste of manpower, material and financial resources, as well as the production of poor quality iron and steel. To improve the quality of coke, the first step is to do a better job of washing the coal.

The coal washing capacity is as follows. The large mechanized coal washing factories will produce about 19.5 million tons of coal this year and the newly built factories (most are simple coal washing factories where the problem of equipment is being worked out) will produce 5.5 million tons of coal. These two produce a total of 25 million tons of coal. In addition, we shall also produce 20 million tons of coal using indigenous methods. The coal washed by these methods, according to one estimate, will require 600,000 manpower days. This requires 200 work days to accomplish and also requires pulverizing equipment and necessary tools. We must also point out that the output of the 25 million tons of washed coal produced by mechanized coal washing factories is not consistent each quarter. In the first quarter 4.15 million tons of coal was produced. Only about 4.64 million tons will be produced in the second quarter, and only 5.47 million tons in the third quarter, leaving production of the remaining 10.74 million tons (making up 40 per cent of the total) to be accomplished in the fourth quarter. Therefore, we can not meet the needs of

iron smelting each quarter. If mechanized coal washing factories cannot wash more coal in the second and third quarters, then the amount of coal washed by indigenous methods in those two quarters will have to be increased.

The situation with regard to our coking capacity is as follows. The original large production facilities can produce 10 million tons of coke; the newly built mechanized coke ovens and simple coke ovens can produce 10 million tons of coke; and according to the plan, indigenous methods will be used to produce 10 million tons of coke. These three total 30 million tons. Among the newly built coke ovens, 36 are mechanized, 19 of which can be completed this year. These will produce 2.43 million tons of coke. There are 1,700 Red Flag No. 2 simple coke ovens which can produce 5.3 million tons of coke. There are 800 Red Flag No. 3 simple coke ovens which will be able to produce 1.7 million tons of coke when they are completed. At present, the Red Flag No. 2 coke ovens use mainly manual production techniques and are in need of technical improvement.

It should be noted that the scale of construction (including mechanized coke ovens and simple coke ovens) in the coking industry is not small. However, only two-thirds of our needs will be met, even if we are able to finish building all of them on time and we make the most of the existing coking capacity. The remaining one-third, i.e., 10 million tons of coke, must still come from production using indigenous techniques. Washed coal, of course, can also be processed into good coke, but we still need to perfect the coking techniques. We must give this matter adequate attention.

(3) Refractory materials: According to the Ministry of Metallurgy's calculation, this year we shall need 4.2 million tons of various kinds of refractory materials (including fireclay bricks, silica bricks, magnesia bricks and high-alumina bricks) and 6 million tons of raw materials (clay, silica, magnesia, high alumina, etc.). Of these materials, only 20 per cent will be mined mechanically; the remaining 80 per cent will be produced mainly through manual techniques. Therefore, mining and transportation operations will require a great deal of manpower.

(4) Smelting: Concerning the equipment needed for iron-smelting, steel-smelting and steel-rolling to produce so much pig iron, steel and rolled steel, we can mainly rely on existing equipment (in some cases we need additional equipment to form complete sets). The State Planning Commission and the Ministry of Metallurgy have already explained this situation in more detail, so I shall not repeat it here.

(5) Transportation: In order to produce 20 million tons of pig iron, in addition to transporting 90 to 100 million tons of coking coal, we must transport a lot of ore and refractory materials. The Ministry of Metallurgy has asked that 500 kilometres of railway branch lines and special lines be laid, that 500 kilometres of light railway be laid and that 150 locomotives, 1,500 railway wagons and a number of small locomotives and mine wagons be added to our present railway system.

Owing to the needs of iron and steel production, our short distance transportation facilities are being greatly taxed. In quite a few provinces, most of the lorries are being used to transport raw and semi-finished materials for iron and steel production. This situation cannot endure. Iron and steel works producing tens of thousands of tons annually cannot rely only on road-based transportation.

The situation described above shows that this year it is possible to produce 13 million tons of steel and 9 million tons of rolled steel, but we shall need to make a great effort in order to accomplish this.

Second, the production situation in the first four months of this year also indicates that it is possible to fulfill the above production targets, including the production of 9 million tons of rolled steel, 13 million tons of steel and 20 million tons of iron. The important thing is to guarantee the quality.

Over the past four months we produced 2.27 million tons of rolled steel, 3.36 million tons of steel and 6.03 million tons of iron (some of which was produced by indigenous methods<sup>78</sup> and was below-standard second-rate iron). During the next eight months, we shall have to produce 6.73 million tons of rolled steel, 9.64 million tons of steel and 14 million tons of iron. With effort it will be possible to fulfill this task but we need to pay special attention to improving the quality of the iron. Of the iron now produced around the country, more than a little is below standard. It was absolutely correct for the Ministry of Metallurgy to propose that we stress quality in iron and steel production.

Now I shall talk a bit about small blast furnaces. With regard to the construction of blast furnaces, we should build large, small and medium-sized furnaces, focusing predominantly on large ones. At present, small blast furnaces are necessary. Of the 20 million tons of iron to be produced this year, 9 million tons will come from small blast furnaces. Small blast furnace technology should be improved. Some small furnaces should be developed into large or medium-sized furnaces. This is an inevitable trend. In those areas where there is a shortage of coal and iron resources and where transportation is a problem, some small blast furnaces will have to

stop production. In places where conditions are very unfavourable, no additional small blast furnaces should be built. Concerning small blast furnaces now in operation, we must take effective measures to upgrade technology, improve management and conscientiously raise the quality of pig iron.

Third, as for the production of rolled steel, we can turn out 9 million tons of rolled steel if we smelt 13 million tons of good quality steel this year. But there is still a problem with the variety of rolled steel. All of the rolling mills we added this year are small or medium-sized. The proportion of small size rolled steel has increased from around 24 per cent in the past few years to around 29 per cent at present, or from 1.49 million tons last year to 2.6 million tons this year in terms of absolute quantities. On the other hand, large and major rolling mills have not been completed, so the output of the eight types of important rolled steel (heavy rails, large steel products, medium-thick steel plates, thin steel plates, seamless steel tubes, seamed steel tubes, silicon steel and high quality steel) cannot yet be increased significantly. Furthermore, we shall import much less than last year, so there probably will be only 4.86 million tons of rolled steel available for allocation during the whole year, which is an increase of only 100,000 tons from last year. A large increase in small size rolled steel and a small increase in large and major rolled steel will certainly affect the manufacture of important equipment and the construction of important projects.

It will be helpful to produce more steel. The main problem at present is to work hard to increase the output of the eight types of important rolled steel in order to meet the needs of production and construction. To this end, we should build more large rolling mills and other important rolling mills as soon as possible.

After looking at each link in the iron and steel industry and the situation in iron and steel production for the first four months of this year as well as the variety of rolled steel and other factors, it seems reasonable to fix the output of rolled steel at 9 million tons as a reliable starting point. Of course, we should not simply accept this target and stop striving to produce more. We take a firm stand for the purpose of moving forward. If we stand firm at this starting point, we shall be able to progress steadily, and only then will it be possible to exceed this target. We need to study this matter further before we can estimate by how much we might exceed our target and determine how high the target to strive for should be.

The present study of the target for production of iron and steel has been



limited to the links in the iron and steel industry and we have not yet carried out a comprehensive study of the relationship between the iron and steel industry and other industries, let alone a complete study of the relationship between industry as a whole and the other sectors of the national economy. It is not entirely appropriate to set a target for the production of steel and rolled steel only on the basis of the iron and steel industry. Since iron and steel are just one link in industry and in the national economy, we shall be able to see clearly whether the target for the production of iron and steel has been correct only after we make a comprehensive study. The opinions of the Financial and Economic Group are only preliminary and only for the consideration of the Political Bureau. We do not hope to make the final decision. Even if the Political Bureau agrees to set the rolled steel production target at 9 million tons as a starting point and to set the steel target at 13 million tons, we would still request the Political Bureau to allow the Financial and Economic Group some time to consider the option of setting the steel production target at 15 million tons as proposed by comrades in the Ministry of Metallurgy, and to comprehensively study the relationship between iron and steel production on the one hand and industry as a whole and the national economy on the other.

In order to retreat to reliable ground, stand firm and then progress, we must have realistic and well planned arrangements for production and construction. At the same time, we should make the vast number of cadres and the masses understand that advancing after standing firm will result in a more solid advance. In this way, they will not become discouraged at any retreat.

The Financial and Economic Group still needs to consider how to make plans and how to explain the situation to each enterprise. The target for rolled steel production envisaged in the original plan has been cut and the amount to be allocated has been reduced. Production and construction units may now ask, "What should we do if the originally assigned tasks cannot be accomplished?" We feel that however much can be accomplished with available materials and a conscientious effort will be the right amount.

## II. SEVERAL ISSUES ON WHICH WE SHOULD CONCENTRATE AT PRESENT

First, we should stress the need to improve quality. We should stress the need to improve the quality of iron and steel as well as quality in equipment manufacture, production of manufactured goods for household

use, capital construction, etc. Many items for export were of relatively good quality in the past, but the quality has now deteriorated and these items in ill repute abroad. Though the output is large, if the quality is very poor and the items produced are useless, they will not only fail to meet the requirements of production, construction and the market, but this will also result in an enormous waste of resources. Any formerly high quality product whose quality has dropped should be returned to its previous level as soon as possible. We should also take active measures and set deadlines to improve those products whose quality was never good. The State Economic Commission and the Financial and Economic Group are planning to devote several days to discuss product quality improvement and to plan practical measures.

Second, we should guarantee key production factors and also take ordinary things into consideration. Those key production and construction factors such as iron and steel, coal, electric power, machinery and transportation must be guaranteed, but we should also give realistic consideration to petroleum, chemical engineering, important building materials and light industrial products that are in great demand in the market. If we do not, various sectors of the national economy will be unable to develop in a coordinated way and it will also be difficult to reliably guarantee development in key areas. In general, we must handle these affairs according to plan and on a proportionate basis.

Third, we should consider next year's development as well as long-term development. Present production and construction are important, and must not be neglected, but we cannot think only of the present to the neglect of the future. Large and medium-sized rolling mills as well as rolling mills for tube and plate materials are necessary in providing a greater variety of rolled steel, so they should be guaranteed. The four large blast furnaces being built this year by the four iron and steel works in Wuhan, Baotou, Taiyuan and Shijingshan<sup>79</sup> are necessary for increasing the production of pig iron, so early completion should also be guaranteed. If few rolled steel products are distributed to the Ministry of Metallurgy and if the amount of rolled steel to be used in major rolling mills and in building the four large blast furnaces conflicts with the rolled steel quotas for other fields, then, for the sake of long-term interests, we would rather cut down on the latter and ensure the former when the needs for both cannot be met. In addition, we should have a long-term programme for the construction of a new main coking coal<sup>80</sup> base and new coal bases in the regions south of the Yangtze River, for the construction of the Lanzhou-Urumqi Railway, for the exploitation of the northwestern oil

fields and for the production of other indispensable raw materials for industry such as those raw materials used for alloy steel, carbon electrode, and so on. These should be arranged for immediately and each step should be actively carried out.

Above is my first report to the Party Central Committee after hearing the report on the iron and steel situation by the Ministry of Metallurgy. I am not familiar with industrial conditions; I do not know very much about them. Moreover, I have not heard reports from other industrial departments. Therefore, I cannot be sure of the appropriateness of the opinions I have expressed. I intend to present reports to the Chairman, the Political Bureau and to the Secretariat after I have heard reports from various industrial ministries and other departments.

## **A LETTER TO COMRADE MAO ZEDONG CONCERNING THE IRON AND STEEL TARGET**

*May 15, 1959*

Most of the comrades who took part in the study of the iron and steel target proposed that it would be reasonable to set this year's production target for rolled steel at 9 million tons, to be divided among the ministries, provinces and cities, and that the quantity in excess of 9 million tons be made the target to strive for in the future. The comrades at the meeting from the Ministry of Metallurgical Industry believed that a target of 9 million tons of rolled steel (that is, to fix the amount of steel at 13 million tons) was too low and would discourage people working at the lower levels. There are differing opinions among comrades, not only in Beijing but also in all provinces and cities, as to what quantity of steel and rolled steel can actually be produced this year. However, in consideration of the overall situation and in order to maintain production order and avoid any more great changes in the plan, I think that we should expect to distribute 9 million tons of rolled steel. If in any one month the production exceeds the month's target, we can distribute the excess in the following month, so any production in excess of the target will not be affected. I do not think it is correct to say that in setting the production target lower (actually this is a reasonable estimate) we will be discouraging people. But just as Comrade [Liu] Shaoqi<sup>81</sup> said at a meeting of the Political Bureau, if we set too high a target, this could be discouraging.

Over 40 per cent of the 9 million tons of iron smelted using small blast furnaces contains sulphur in excess of 0.2 per cent, the standard set by the Ministry of Metallurgical Industry. Some say that it is at least 50 per cent. If this situation does not change, there will be 4 to 5 million tons of pig iron which will contain more sulphur than the standard defines, which cannot be used for casting and so cannot be used to produce rolled steel of good quality. This is a waste of labour and materials. We must find a way to solve the problem of high-sulphur iron. If the key lies in coal washing, we should make



it a rule that the coal must be washed and clearly define the standard for sulphur content. No unwashed coal should be used to produce iron. I am worried that if the quality of iron does not improve, we shall not be able to cast the iron necessary to produce 13 million tons of steel. In other words, we shall not be able to produce 9 million tons of useful rolled steel. Washing coal to remove sulphur is the key to fulfilling the target for rolled steel.

I hope that the comrades in the Financial and Economic Group,<sup>74</sup> including Comrade [Wang] Heshou,<sup>82</sup> will report to you. Please brief us when you have the time.

Since some comrades have differing opinions which represent the views of quite a large number of people, the Financial and Economic Group is going to study their ideas once more. Following your instruction, we are trying to be resourceful so as to make the best possible decisions.

## ONE SIDE OF THE NET SHOULD BE LEFT OPEN IN MANAGING THE MARKET

*January 19, 1961*

I shall discuss two issues.

The first issue concerns importing grain. In our country, the grain supply should be based on self-sufficiency. But at present we have an opportunity to import 2 million tons of grain and the contract will be signed soon. When we have such an opportunity to import more grain, we are willing to do it. But herein lies a problem: in exchange, we shall have to export produce such as walnuts, melon seeds and dates, thus reducing the supply at home. To which should we give priority? In my opinion, priority should be given to importing grain. Giving priority to between-meal snacks is not necessary. It would be better to export those foods that have a market abroad in exchange for grain. If we can bring in 4 million tons of grain from abroad, we shall have an easier time this year. If we can bring in more grain next year and the year after next, we shall be able to accumulate some reserves. In short, we cannot have one without giving up the other. If we cannot bear to give anything up, we shall gain nothing in the end. The principle is the same as that applied to fighting a battle. It is not very effective to strike with both fists all at once; only one fist should be used at a time. As far as importing grain is concerned, we have in the main followed this principle. Is there any danger in doing so? In my view, it is to our advantage to clench our teeth and hold on for several years. At present, the cloth ration has been greatly reduced. The annual per capita quota used to be 18 *chi* (one *chi* is equivalent to one third of a metre—*Tr.*), excluding cotton wadding and knitwear. At this time, all these materials are included in the quota and the actual quota for cloth is only six *chi*, which is definitely unsatisfactory. Nevertheless, we decided in our last discussion on importing grain that the per capita cloth ration could be cut further by one *chi*. This

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Speech at a working conference of the Central Committee of the Chinese Communist Party.

cut will make it possible to import 500 million more kg of grain. A bolt of cloth is worth US\$5, so 70 million bolts are worth \$35 million, just the amount needed to import 500 million more kg of wheat. I prefer importing 500 million more kg of grain to not cutting the per capita cloth ration by one more *chi*. Is this decision right or wrong? I believe that this decision is correct.

The second issue concerns cakes and pastries. This seems to be a trivial matter, but a solution will put people's minds at ease. Everything is now rationed; no one is allowed to buy more than his or her ration even if he or she has the money, which has led to complaints. A capitalist in Jiangsu Province remarked: "The Renminbi is no longer in command." A doctor in Shanghai told the secretary of a Party committee: "My wife and I earn more than 400 yuan a month, but we cannot buy anything with the money. It does us no good to receive these wages; we might as well return the money to the state." One way out is to ration by using coupons. This method may be adopted in a socialist country when necessary, and must be adopted in times of war. Because of our present shortage of supplies, we should "walk with two legs." Some commodities can be distributed through use of ration coupons and some should be bought only with money. We can adopt these two methods now in selling cakes and pastries. One is to sell them at low prices on ration, 0.5 to 0.6 yuan for 500 grams. The other is to sell them for cash, but at higher prices.

What is the significance in doing this? In my opinion, first, it will put people's minds at ease; second, it will provide a little extra nutrition for the people; and third, it will withdraw currency from circulation. In times of short supply, one side of the net must always be left open. The situation is the same in other countries. I have asked some comrades and learned that in wartime London the restaurants remained opened though grain was rationed. A person could buy only one portion for cash. In short, it is a good thing to leave one side of the net open; egalitarianism should not be applied to everything. This will make it possible for the people to get more to eat and to add to their calorie intake. At the same time, more currency can be withdrawn from circulation. This is really an excellent way to withdraw currency.

At present, the question is how to make full use of imported sugar and wheat. If the sugar imported from Cuba is divided equally among 700 million people, each person will get only a very small portion. Therefore, use of the imported sugar should be concentrated where it serves us best. In some places a person is allowed to buy 100-150 grams of sugar a month. This supply may remain unchanged as long as it can be sustained, but it should absolutely not

be increased. The supply of sugar to some locations has long been arrested due to shortages and it should not be restored. The current supply of imported sugar should first be used for making high-grade sweets, cakes and pastries. When we obtain pork, restaurants can be opened to sell stirfried meat dishes. We can use the flour from the imported wheat for making high-grade cakes and pastries, while the bran will make very good feed for pigs. It will solve quite a few problems to sell high-priced cakes, pastries and meat dishes, and also to raise pigs. In brief, both the sugar and the wheat that we currently import and the pork that we will produce in the future should be used as flexible reserves or put on the open market.

Workers in the commercial sector should be encouraged to improve the quality of high-grade sweets, cakes and pastries. The cake and pastry makers have been sent to the countryside, so the cakes and pastries now produced are of very poor quality. I once had my child join the queue in Zhongnanhai for half a kilogram of pastries. What were the so-called high-grade pastries like? They were incredibly unappetizing. The price used to be 0.64 yuan for 500 grams but now it has gone up to four and one-half yuan for 500 grams. On the evening before the high-grade cakes and pastries were to be put on the market in Beijing, Comrade Yao Yilin<sup>83</sup> went to retail shops to check the pastries, and there too the quality was poor. I feel strongly about this. We had formerly been shown samples of several dozen varieties, but what we saw in the retail shops were different and of poorer quality than the pastries that we had been shown. That is, fake samples had been presented to us. High-grade cakes and pastries are expensive, so they should be of good quality. Therefore, the former pastry masters should be recalled to Beijing, Tianjin, Shanghai, Guangzhou, Wuhan and other cities. Comrades in charge of finance and trade should carefully attend to this matter.

Some of the staff in the commercial sector are not bold enough to release control over the market for high-grade cakes, pastries and sweets because they fear a wave of panic buying that would quickly empty store shelves. This fear is caused by ignorance. The staff should be informed that sales of these commodities can be open-ended; they should not worry about panic buying. I have calculated that if 10,000 tons of sugar is used to produce high-grade sweets to be sold at an average price of five yuan for 500 grams, this would bring in 100 million yuan. Some are afraid that the capitalists might quickly buy up the sweets. What are the total earnings from fixed interest<sup>3</sup> drawn by the capitalists in our country in one year? They amount to 100 million yuan at the most. It would be wonderful if the capitalists did spend all their earnings from fixed interest on sweets. We could then distribute 10,000 tons of sweets in exchange for 100 million yuan. How much sugar do we have on



hand? Already, over 100,000 tons of sugar has arrived. In addition, over 200,000 tons are on the way and in the second quarter of the year we shall receive another 300,000 tons. This supply is guaranteed, so there is no need to worry. We should keep the market open. And we don't need to fear that senior intellectuals will buy up all the sweets. There are at most 200,000 such intellectuals; if each buys 50 kg, that would amount to only 10,000 tons. There are also 50 million workers and office staff who cannot afford to buy many sweets at five yuan per 500 grams; their income is limited and must be used to support their families. If the purchases made by workers and office staff of various income levels averaged about 500 grams per person, this would be extraordinary. Even if each person buys 500 grams, this would amount to only a little more than 20,000 tons.

Some comrades are terrified of panic buying. They have not calculated how much we have in reserve nor the purchasing power in society. According to the above calculations, we can feel secure about keeping the market open. Since a capitalist in Jiangsu has exclaimed that "the Renminbi is no longer in command," let us now put it "in command" and as much in command as possible, so that all the currency will be "commanded" to return to us. Those working in commerce should be encouraged to act boldly and not to be over-cautious. The more one fears the devil, the more terrible the devil will appear. In Tianjin, 35,000 kg of sweets were sold on the first day, 40,000 kg on the second, but only 4,000 kg on the third. People tend to buy more at first due to psychological factors. As the supply remains open-ended, this situation will change and sales will definitely decrease.

At present, there are restrictions on everything in department stores; everything requires coupons and nothing can be bought with money. The same is true in Beijing. This is no good. We need to place more commodities on the market.

In some areas, it might be better in the future to use grain to produce cakes and pastries rather than raising the individual grain ration. Of course, this can be done only in some areas, not all over the country. We plan to use most of any future increase in the grain supply for cakes and pastries. At the moment, a 300 gram coupon is required to buy 500 grams of cakes or pastries. When we are sure of our grain supply, the grain coupons can be phased out. This, of course, cannot be done at present because of the shortage of grain. However, I am in favour of reducing the use of grain coupons whenever it is practicable.

## **SPEEDING UP DEVELOPMENT OF THE NITROGENOUS FERTILIZER INDUSTRY**

*May 16, 1961*

The Central Committee has decided that speeding up the development of the nitrogenous fertilizer industry is one of the important tasks for industry in supporting agriculture.

In order to fulfill this important task, two issues now need to be decided. One is whether we should build large or small nitrogenous fertilizer factories. The other is the disposition of nitrogenous fertilizer factories. Should we incorporate the more than 10 factories that we have already begun to construct into our annual plans and develop them simultaneously, or should we focus our efforts on one group at a time, each year concentrating on projects with a production capacity of 200,000 to 250,000 tons of synthetic ammonia annually?

At the Hangzhou Forum held from April 4 to 10 of this year by Comrade Chen Yun and attended by some comrades from the Central Chemical Fertilizer Group, we studied these two issues in detail as well as important related matters, and we reached a consensus. We believe that in the three years from 1962 to 1964 we should build large nitrogenous fertilizer factories and that the construction plan should concentrate on developing projects capable of producing 200,000 to 250,000 tons of synthetic ammonia annually.

Why did we choose this? Let me now report to the Central Committee on the results of our discussions at the forum.

On the question of scale:

Under the technical guidance of the Ministry of Chemical Industry, from 1959 to 1960 we began construction of a group of small nitrogenous fertilizer factories that can produce 800 to 2,000 tons of synthetic ammonia

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Report to the Central Committee of the Chinese Communist Party drafted for the Central Chemical Fertilizer Group. This report was approved by the CPC Central Committee and issued as its official document.

annually. By the end of 1960, we had built and put into operation more than 20 factories that produce 800 tons annually. Among them, five operate well. We have built and put into production seven factories that produce 2,000 tons every year, and three of them function well. At that time, we planned to build many small nitrogenous fertilizer factories throughout the country because of the following considerations: small nitrogenous fertilizer factories require fewer important materials; the manufacture of the equipment is easy, so province-owned machinery factories can assume responsibility for manufacture; small factories suit the dispersed conditions of the countryside; it will be easier to meet the general demand for nitrogenous fertilizer in each area; small factories are helpful in arousing motivation to develop chemical fertilizer in localities and even in certain people's communes; and construction will require only a short period of time and so production can begin quickly. However, one year of experience demonstrates that there would be many problems in carrying out this plan.

So far as we know, production in the eight small normally functioning nitrogenous fertilizer factories is unstable because the quality of their equipment is poor, it is very hard for workers to master technical operations, and, as a result, there are many accidents. Actual output does not meet the designed capacity and the consumption of raw materials and power is very high. In short, construction of and production in small nitrogenous fertilizer factories does not meet technical requirements. We would still need to make a great effort and it would take time to meet these requirements completely.

In contrast to small nitrogenous fertilizer factories, large factories which can produce 25,000 to 50,000 tons of synthetic ammonia annually are feasible in terms of construction, production and technology. There are currently six such large factories, located in Dalian, Nanjing, Jilin, Lanzhou, Taiyuan and Chengdu. All of them have been operational for a relatively long time and production has been quite regular. With a few exceptions, the main and supporting equipment needed to build these large factories has been successfully trial-manufactured in China and is now being produced here. By the end of 1961, we shall be able to manufacture three sets of the equipment needed to produce 25,000 tons of synthetic ammonia annually.

Large nitrogenous fertilizer factories can save labour, utilize technical resources in a concentrated manner and turn out good quality products at low cost. In these respects, the large factories are superior to the small ones.

As to a comparison of large with medium-size factories, the former are technically more advanced. A medium-size factory that annually produces 10,000 tons of synthetic ammonia was built and put into operation at the end of 1959. But up to now its production remains unstable and its output

has still not reached the designed capacity. In particular, since we have not solved the technical problem of ammonia processing very well, ammonia losses are relatively large in the medium-size factories and the finished product decomposes easily and is difficult to preserve. Therefore, we should not construct many medium-size factories at present.

Of course, small nitrogenous fertilizer factories have their advantages. However, since they have not met technical requirements, we must continue attempts to improve them. We should not construct them in large numbers or throughout the country until they meet technical standards.

One way to build a large nitrogenous fertilizer factory which produces 50,000 tons annually is to complete the construction in two phases, building one plant with the capacity to produce 25,000 tons in each phase. The other way is to complete the construction all at once. The construction period for a factory with an annual production capacity of 25,000 tons is the same as that for one with a production capacity of 50,000 tons—two to two and one-half years. If we build the factory with 50,000 tons annual yield all at once, this will require only one-third more material and equipment as compared with constructing the factory in two phases; thus, we shall use one-third less material and equipment. In order to economize on the use of material and equipment, utilize technical resources in a concentrated way and race against time, we should from now on construct factories with an annual output of 50,000 tons of synthetic ammonia all at once, that is, we should not build them in two separate phases or as two separate factories.

Within the next three years our plan for the development of the nitrogenous fertilizer industry should be to construct large nitrogenous fertilizer factories with an annual output of 50,000 tons of ammonia yearly and in groups.

During our research on the optimal size of nitrogenous fertilizer factories, we also investigated and studied the varieties of nitrogenous fertilizer. Owing to limitations in raw materials and capacity for producing sulphuric acid, and because the sulphuric acid radical easily destroys the soil in certain areas, it is not appropriate to produce a lot of ammonium sulfate at present or in the future. Ammonium bicarbonate and urea are in small-scale trial production, so they cannot be popularized, either. We think, therefore, that we should focus on ammonium nitrate production in the next two to three years.

On the question of disposition:

Beginning in 1958, we began constructing more than ten large nitrogenous fertilizer factories throughout the country. Since there were too many, a sufficient supply of materials and equipment was unavailable, so not one



has been completed. We cannot continue constructing them and most of these projects are not listed in this year's plan.

In order to develop agricultural production and increase grain output, we must do everything possible to accelerate the development of the nitrogenous fertilizer industry. Our opinion is unanimous regarding this issue. The question concerning the construction of nitrogenous fertilizer factories is to decide what size is both feasible and optimal. It takes about two to two and one-half years to construct a factory capable of producing 50,000 tons of synthetic ammonia annually. In view of past failure to complete any when we tried to build too many, we think that it is proper, within the three years from 1962 to 1964, to build four to five factories each year with an annual capacity of 50,000 tons. Specifically, in 1962, we shall build four in addition to working on construction projects that are in the state plan from the previous year. In 1963, while completing the four begun in 1962, we shall begin five new factories. Similarly, in 1964 we shall complete these five and at the same time begin five more. Thus, beginning in 1963, the scale of the construction programme, including the factories that we are continuing to construct and the factories we are beginning to build, will be eight to ten factories annually. This means that we shall be constructing synthetic ammonia factories capable of producing 400,000 to 500,000 tons simultaneously. The annual production capacity of the synthetic ammonia factories that we shall complete and put into production each year will be 200,000 to 250,000 tons. If they operate normally, these factories can produce over 400,000 to 500,000 tons of ammonium nitrate each year (one ton of synthetic ammonia can be used to produce more than two tons of ammonium nitrate), which is equivalent to 800,000 to 1 million tons of ammonium sulfate (1 ton of synthetic ammonia can be used to produce nearly four tons of ammonium sulfate).

Under the present conditions in our country, it is very ambitious to try to increase the production capacity by 200,000 to 250,000 tons of synthetic ammonia every year. From 1950 to 1960 we added a production capacity of 510,000 tons of synthetic ammonia. It increased by 145,000 tons from 1950 to 1957, averaging 18,000 tons each year; it increased by 365,000 tons from 1958 to 1960, averaging 122,000 tons each year. Yet, in the next few years we shall increase the capacity by 200,000 to 250,000 tons each year, equaling four or five times the average annual increase of the past 11 years. If we compare this increase with the pre-liberation period (the highest synthetic ammonia production capacity before liberation was 50,000 tons), we can judge the magnitude of our growth in this area.

Can we increase synthetic ammonia production in the next three years?

Not under present conditions. It is absolutely necessary to develop the nitrogenous fertilizer industry as quickly as possible so that agricultural production can expand rapidly. It would already be on a much larger scale than the growth in other industries if we could increase our production capacity by 200,000 to 250,000 tons of synthetic ammonia each year. We must not squeeze out other industries in order to accelerate the development of the nitrogenous fertilizer industry. Instead, we must focus both on the nitrogenous fertilizer industry and other industries through a comprehensive balanced plan for the entire national economy. With regard to the distribution of investment, material allocation and equipment manufacture, we must consider the need to develop the nitrogenous fertilizer industry as well as other industries. Only by so doing can we take a firm stand and build on a solid foundation, enabling the nitrogenous fertilizer industry to develop soundly. It should be pointed out that it will require a very great effort to develop the nitrogenous fertilizer industry on the scale mentioned above. It will take a few years to ascertain whether we can finish construction on time.

Given this construction scale, where should we build the factories? We think that we should build them first in areas in which cash crops are concentrated and in areas with a high yield of grain, and then build them in other areas by stages and in groups. This kind of geographical distribution requires us to postpone the construction of nitrogenous fertilizer factories in areas with scattered cash crop production and in some grain-growing areas. Even in areas with concentrated cash crop production and areas with a high yield of grain, construction must be carried out in stages. This runs contrary to the request to extensively develop the nitrogenous fertilizer industry throughout the country. However, this is what we can accomplish with existing materials, equipment and technical resources. Experience shows that if we adopt the opposite plan—construct on a widespread basis and go forward with this all at one time—it will definitely lead to a scattered use of our limited materials, equipment and technical resources, prolong the construction period, make it impossible to achieve the production capacity in time, and even cause great waste. The method of concentrating construction in stages avoids the shortcomings mentioned above and greatly increases the speed of construction.

The above is the opinion we reached after research and comparison concerning the policy for quickening the development of the nitrogenous fertilizer industry.

In order to carry out the above policy and strive to fulfill the building plan for large nitrogenous fertilizer factories, we suggest adopting the following important measures:

First, we should import the important materials. To build a factory that annually produces 50,000 tons of synthetic ammonia and contains such facilities as a power station and a coke furnace of its own as well as ammonium nitrate processing equipment, it requires about 10,000 tons of different kinds of metallic materials. At present, domestic production of these materials is either insufficient or they cannot be produced at all, so they must be imported and should be listed in the national annual import plan. The foreign exchange needed should be guaranteed. This is the key to completing construction of nitrogenous fertilizer factories in the next three years. According to the calculation of the Ministry of Chemical Industry, it will cost about US\$3.2 million in foreign exchange to import materials needed by a factory producing 50,000 tons of synthetic ammonia annually, and we need a total of US\$16 million for five factories. It is much more advantageous to import these materials for building nitrogenous fertilizer factories than to import grain. With US\$3.2 million, we can buy only 45,000 tons of grain, which will be consumed very quickly. But if we use this money to buy materials for building a factory capable of producing 50,000 tons of synthetic ammonia annually, the chemical fertilizer produced will help increase grain production by 500,000 or 600,000 tons of grain a year. In order to organize importation of these materials, we suggest that the Ministry of Chemical Industry, the First Ministry of Machine-Building Industry<sup>68</sup> and the Ministry of Foreign Trade establish a special import group to draw up a detailed list of goods to be imported. They should also make other preparations and send people abroad by the end of May or early June to order the varieties and specifications of items needed by installment. In addition to meeting this year's needs, we should gradually accumulate reserves equal in value to one year's import of materials. The Ministry of Chemical Industry will establish a special warehouse for these imported materials to guarantee that these materials are used to manufacture the equipment for and to complete the construction of nitrogenous fertilizer factories according to plan.

Second, we should manufacture the equipment at designated factories. In order to guarantee the normal production and supply of complete sets of equipment for nitrogenous fertilizer factories, the factories that have been producing the necessary equipment should continue doing so. At the same time, the First Ministry of Machine-Building Industry should designate additional factories to manufacture related equipment (such as oxygen generators, freezers, air-blowers, valves and electrical equipment) needed by the nitrogenous fertilizer factories. Designation of these factories does not mean that they should only manufacture equipment for nitrogenous fertilizer



factories or that they cannot manufacture equipment for other industrial enterprises, however these factories must carry out the task of manufacturing equipment for nitrogenous fertilizer factories so we can alter the current situation in which we cannot guarantee the timely supply or delivery of the ordinary machinery and equipment needed by existing nitrogenous fertilizer factories. After the plans for the manufacture of the equipment have been decided, the Ministry of Chemical Industry and the First Ministry of Machine-Building Industry should take charge of the supply of special materials so that factories can fulfill their production tasks in time, supply will be ensured and quality will be constantly improved. Additionally, manufacture of nitrogenous fertilizer equipment undertaken by the factories under the Third Ministry of Machine-Building Industry<sup>84</sup> should continue to be done by the Third Ministry of Machine-Building Industry as well. This will not be changed for several years.

Third, we must supply complete sets of equipment for nitrogenous fertilizer production. Nitrogenous fertilizer equipment is numerous, it comes in many varieties and it is very complex. In order to guarantee the smooth construction of nitrogenous fertilizer factories, we must organize the manufacture and supply of complete sets of equipment according to the detailed list of equipment in the design documents for large synthetic ammonia factories. At the same time, we must supply a greater range of complete sets of nitrogenous fertilizer equipment. That is, besides ensuring the supply of complete sets of the main production equipment and the supply of complete sets of equipment for all the nitrogenous fertilizer factory supplementary workshops, we should ensure the supply of complete sets of equipment needed for coal washing, coking, power stations, transportation and related public utilities. We suggest that the State Planning Commission list in the plan the complete sets of equipment specified in the design documents for large nitrogenous fertilizer factories, and that the Complete Sets Bureau of the First Ministry of Machine-Building Industry should be responsible for supplying these. With regard to the necessary accessories for nitrogenous fertilizer equipment, all the electrical products that are not subject to unified distribution by the state or by the relevant ministries and all the hardware and electrical equipment (the so-called "category three" commodities) that can be purchased on the market should be supplied by the special organs established by the State Materials Administration and the Ministry of Commerce. Once the supply of complete sets of equipment for nitrogenous fertilizer factories has been implemented and supply quotas are fixed, the units building large nitrogenous fertilizer factories will not be required to attend national conferences to order electrical products.



Fourth, we should guarantee the supply of domestic materials. It takes a total of more than 30,000 tons of all kinds of metallic materials to build a factory with an annual output of 50,000 tons of synthetic ammonia. We import nearly 10,000 tons of these materials and domestically produce and supply more than 20,000 tons. The First Ministry of Machine-Building Industry and the Ministry of Chemical Industry should calculate the amount of these domestically produced materials needed each year for the construction of nitrogenous fertilizer factories. The State Planning Commission should examine and determine the distribution targets, list them in the annual plan and guarantee the supply. In order to manufacture the equipment as soon as possible, the materials needed should be prepared one-half year in advance, allocated for their specified uses and provided directly to the factories. The supplied materials, especially smelted pig iron, must be up to standard to ensure the quality of the equipment.

Fifth, we should eliminate the weak links in the manufacture of complete sets of equipment. The country needs a very large number of oxygen generators, freezers, compressors, high-pressure valves, medium-pressure valves and large generators, but output is low and supply falls short of demand. This is a weak link in our machine-building industry at present. In order to facilitate development of other departments and ensure the needs of our nitrogenous fertilizer factories, we should take effective measures, including expansion of existing enterprises and focus more on the trial-manufacture of new products, thus increasing our capacity to manufacture this equipment within two or three years. The First Ministry of Machine-Building Industry should propose a specific plan for this work and then carry it out after it is examined and approved by the State Planning Commission.

Sixth, we should strictly follow the proper sequence for capital construction. When we build large nitrogenous fertilizer factories in the future, besides working out designs and plans and submitting them to the relevant departments for approval, we must first consider the materials, then consider equipment and finally construction. That is, first we must arrange for the supply of the important domestically produced and imported materials. After obtaining or guaranteeing material supplies, we must organize the manufacture and supply of complete sets of equipment. Finally, we must set the pace for factory construction and carry this out. Experience shows that this will not delay construction, but rather, it will speed it up and ensure construction quality.

## HANDLING FOREIGN TRADE WELL

*May 30, 1961*

### IT IS BETTER TO PURCHASE FEWER AGRICULTURAL PRODUCTS THAN TO PROCURE TOO MANY

We have always wanted to purchase more agricultural products, but because we purchased too many, leaving few for the peasants, finally the peasants did not want to work and we were unable to collect anything from them. As a result, the supply for export and for cities was significantly decreased. After going back and forth for several years, experience shows us that it is better to purchase fewer agricultural products than to procure too many. That is to say, we would rather purchase fewer and leave more for the peasants. For example, if a peasant raises one hen that lays 2.5 to 3 kg of eggs, we should purchase just 0.5 to 1 kg. If he has two pigs, we should purchase just one. This way, the peasants will be happy and will be motivated to produce more. "Fertile water does not flow to outside fields." It will be easier to handle things if more is produced. At present, the peasants are still very poor. Even if we leave more for them, actually they will be reluctant just to consume it but will still want to sell some of it. Still, more goods will be available if there is more flexibility. We should also consider adopting this method with regard to oil-bearing crops. The problem now is that we exercise an overly rigid control over more and more categories of goods. As a result, we are able to procure less and less. If we are more flexible, we will be able to purchase more consequent to increased production.

I hope that you comrades will pay special attention to the production, purchase and export of agricultural products. In competing with capitalist countries in the international market, we are finding it difficult to open up new markets for our manufactured products, so the quantity we can export is limited. However, the same is not true of our agricultural products. Our compatriots in Hong Kong and Macao and overseas Chinese in Southeast

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Speech at a special meeting on foreign trade.

Asia all enjoy consuming our agricultural goods and sideline products as well as our local products. The market is reliable; the production period for these products is short and quick results can be achieved, so here we should strive for more exports.

### DOING A GOOD JOB IN FOREIGN TRADE AND STABILIZING THE DOMESTIC MARKET

Each locality is trying to find ways to increase the supply of goods. This is necessary. We should, however, not slacken our efforts to engage in foreign trade. Goods that can be exported should be exported as much as possible, and priority should be given to foreign trade. Of course, we should retain something for the domestic market to ensure essential supplies for our cities. We should not be too reckless when we purchase agricultural products from peasants; we should pay attention to improving the livelihood of the peasants and encourage them to produce.

In recent years the urban population has increased by more than 30 million; wages have increased from 13.7 billion yuan in 1956 to 26.3 billion yuan currently. On the other hand, because of disasters for two years in a row, production in agriculture and in light industry has decreased significantly. Therefore, there is a large gap between people's purchasing power and the quantity of goods and materials that can be supplied. In order to solve this problem, we have already adopted some measures, such as selling high-priced candies, cakes, etc., but these are temporary measures. The cardinal measure is to increase production, especially agricultural production, decrease the urban population and lower the people's purchasing power. This problem will require a period of time to solve. Basically it will take two to three years.

The priority for solving the supply problems in the domestic market is food first and clothing second. With regard to food, grain comes first and non-staple foods second. We can import the raw materials to produce manufactured goods for daily use and put them on the market after the imbalance between purchasing power and supply of materials and goods is less pronounced. By then, except for grain, cooking oil, cloth and a few other goods, we shall be able to supply commodities without using control measures. Coupons will not be necessary. I think this is possible.

The key to stabilizing the market is to import grain. In order to import grain, we must resolve to increase our exports. We must place foreign trade above domestic demands. Importing grain is an important matter that has a

bearing on the overall situation. If we can import grain, we shall not require so much from the peasants; this will stabilize the peasants' morale and increase their motivation to produce. If we spend two or three years developing agriculture, the problem of the domestic market will also be solved. If the peasants have plenty of grain at hand, they can raise more chickens, ducks and pigs, and they can produce more cash crops and various kinds of farm and sideline products. This will help to increase exports. In short, only if we handle our grain work well can we stabilize the overall situation, improve our relationship with the peasants and benefit the diversified economy. It is most dangerous to be short of grain. Of course, it is embarrassing if the market lacks other commodities, which is the case at present. Actually, department stores are commodity exhibition halls, and except for stationery, cosmetics and small commodities that people can buy with money, coupons are required for purchasing many goods. Comparatively, however, grain is a much more important commodity.

#### ESTABLISHING EXPORT COMMODITY BASES

Each export commodity should have its own production base. Certain kinds of agricultural products should be produced in specific counties, and certain kinds of industrial products should be produced at certain factories. These counties and factories should be the production bases for those particular export commodities.

Exporting whatever we produce will work if we have the natural resources. For example, we can export tungsten ore if we can produce it. We cannot export a product that we cannot produce. This is applied to products that we produce in relatively large quantities and which are in demand in the international market, but we cannot say this with regard to ordinary commodities. There is not just one country doing business in the international market but there are many countries. In competing with each other, countries with commodities of good quality and low price will find a market. In order to succeed in this competition, a producer must satisfy the objective needs of customers. In order to export more, we must organize production and manage the bases for our export commodities well, according to the demands of the international market.

All the famous brand commodities, both those for export and those for domestic sale, had their own bases. Quanjude<sup>85</sup> roast duck, Donglaishun<sup>86</sup> instant-boiled mutton, Zhang Xiaoquan<sup>87</sup> scissors, the sandalwood fans of



Suzhou, the silk umbrellas of Hangzhou, and others all had comparatively fixed sources of raw materials. These bases are capable of producing a stable and large quantity of high quality items at low cost. To abandon all these production bases and to practise egalitarianism is inconsistent with economic principles. This erroneous method should not be continued. If we do not restore our production bases rapidly, export will be neither economical nor stable. For example, there is a special kind of chicken that can be exported for US\$3 each, with which earnings we can buy 50 kg of grain. This is an example of economy. Many people enjoy this kind of chicken, so there is a good market. This is conducive to stability. To ensure the export of this product we must establish commodity production bases.

We should spend one and one-half years in establishing production bases for export commodities. For each kind of export commodity worth US\$200,000 to US\$300,000 or more, we must decide how much to produce, how much to export, how much to retain for domestic sale, how to supply raw and semi-finished materials, and so on. Meanwhile, we should help to effect direct contact between the producing and marketing departments, for example, organizing foreign trade departments to make direct contact with people's communes and factories.

We must guarantee the quality of the commodities we export. In trading with foreign countries, we must be accountable for the products we export, guarantee changes and returns, and establish credit; we must establish a reputation for brands of such a high standard of quality. Businessmen used to sell goods even if they lost money in order to help establish a new brand and credit. At present, some of our commodities are below standard and are of low quality, so our reputation on the international market is poor. Therefore we must establish a system of strict quality control for exports; export of substandard commodities should be prohibited. By doing so we shall benefit, not just in the next three or four years, but over a longer period of time. Only in this way can we maintain and develop foreign trade.

To do economic work, we must take a strategic point of view and consider large accounts. At the same time, we should also consider small accounts. We cannot do only big business, dealing only in high-volume imports and exports. We should do both big and small business as we see fit. In short, in both foreign and domestic trade, we should work like businessmen. At present our state-owned stores look like restaurants run by the King of Hell, so who would dare to enter? We must eliminate this kind of bad practice of the "official merchant."

## MOBILIZING URBAN RESIDENTS TO MOVE TO THE COUNTRYSIDE

*May 31, 1961*

I shall now talk about the issues of cutting back the number of workers and office staff and sending urban residents to the countryside.

Why should we do these things?

Today is May 31; in another month this grain year<sup>39</sup> will end. As an assessment of the situation in the countryside, I think that it is somewhat better this year than it was last year. This year, the Party Central Committee and Chairman Mao focused on drafting the 12 articles<sup>88</sup> and then the 60 articles,<sup>89</sup> and consequently the situation in the countryside gradually improved. At this conference,<sup>90</sup> we further solved some policy problems, so I think that the situation next year will be even better than it is this year. Although the rate of increase may not be very great, there will be an increase in agricultural output because the peasants' motivation has been aroused.

The situation in the countryside has improved, and the national economy as a whole is also improving. However, as things stand now, the strain on the grain supply will be more serious next year than it is this year because state reserves have decreased. If the grain taxes and state-purchased grain<sup>91</sup> turned over to the state by the provinces and regions amount to 5.8 billion kg this year, it will probably be only 4.2 billion kg next year. Why? Because the 5.8 billion kg of grain includes some local reserves, which will not be available next year.

If we want to ease the grain shortage that we are now facing, we must take the following four measures:

1. Continue to adjust the Party's basic policies in the countryside, that is, carrying out the 12 articles and the 60 articles, as well as the four policies formulated at this conference (investigation and study, the mass line, correcting the mistakes of egalitarianism and indiscriminate transfer of property and labour and returning what was unlawfully taken away or paying

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Speech at a working conference of the Party Central Committee.

compensation for it,<sup>92</sup> and rehabilitation<sup>93</sup> and punishment<sup>94</sup>). This is important. If we do not solve policy problems, it will be impossible to motivate the peasants, and no matter how many additional measures we take, agricultural output will not increase.

2. Industry should actively support agriculture. This is also very important. But since the output of chemical fertilizer, tractors, irrigation and drainage machines and so on will not increase considerably immediately, we shall not benefit from this measure in the near future.

3. Import grain. This is essential. But given our present situation, it is difficult to import over 5 billion kg because we have neither foreign exchange nor the transport capacity.

4. Encourage urban residents to move to the countryside in order to reduce the amount of grain sold in the cities.

Concerning these four measures, the first is the basic one; the second is low; the third can only be done in limited quantity; and the fourth is indispensable and must be adopted.

In essence, the present problem is this: We shall have to squeeze the grain ration for peasants if urban residents do not move to the countryside. Although people throughout the country are discussing and carrying out the 12 articles and the 60 articles, these will not be effective unless the state cuts back its grain purchase quotas, because, after all, the peasants' motivation is affected by these quotas. If the quota remains too large, the peasants themselves will not have enough to eat and their motivation to produce will remain low. Therefore, there are two alternatives for us to choose from: One is to continue to squeeze the ration for peasants; the other is to send urban residents to the countryside. We have to choose one or the other. We choose the former because there is no other option. I think that the only way out is to reduce the urban population.

Why must urban residents move to the countryside? We can understand this by reviewing history. Serious grain shortages have occurred four times since the founding of the People's Republic. Three of these four shortages were caused by excessive growth in the urban population, that is, the population growth exceeded the capacity of commodity grain production to support them. The fourth shortage was caused by mistakes in our work. I shall next discuss the concrete situation during these four shortages.

The first shortage was in 1953. We decided to carry out unified purchase and sale of grain in October of that year. Before that, we had depended on grain tax; we were able to keep the market stable by levying a grain tax of 15 to 20 billion kg annually. In 1953, the state grain tax and the procurement from peasants' surplus grain totalled 41.5 billion kg and yet the state still

could not ensure market supply. Why? This was mainly because of an increase in the urban population. In the first half of 1952 the urban population was only 61 million. Beginning in the second half of that year we prepared to carry out the First Five-Year Plan;<sup>28</sup> the number of staff in government departments and the number of workers and staff in capital construction and enterprises all increased. As a result, the urban population increased to 78 million in 1953, a sudden increase of 17 million people. Thus we could no longer rely on the grain tax and the surplus grain from the peasants to maintain market supply.

The second shortage was in 1954. In that year we suffered great floods, resulting in decreased grain output. In the grain work that winter we made a mistake, primarily my mistake, we over-purchased. We procured 3.5 billion kg more than in the previous year; the total purchase amounted to 45.1 billion kg. And so, one cause for the shortage was a natural disaster and the other was a mistake in our work. As a result, in the first half of 1955 “every family talked about grain and every household was discussing unified purchase.”

The third shortage was in 1957. At that time it was not so obvious. Only by careful analysis of various statistics did we discover that grain reserves had decreased. Grain reserves had increased in 1954 and 1955. Owing to excessive growth in the urban population in 1956, grain reserves decreased from the original 21.35 billion kg to 18.2 billion kg by the end of June 1957, a decrease of 3.15 billion kg. The amount of grain purchased could not satisfy the needs of the urban population. An acute shortage did not surface at that time because we then had relatively large grain reserves.

The fourth episode began in 1959 and is still with us. We purchased much grain but we sold even more during these two years. In this period, the urban population greatly increased from 99 million in 1957 to 130 million at present, causing grain reserves to decrease each year. Grain reserves will probably drop to 7.4 billion kg by the end of June of this year, of which only 5.05 billion kg will be carried over to next year.

This shows that the cities and the industrial construction projects depend on the surplus products which the countryside provides to the cities. The key is grain. We have now experienced this lesson several times.

Of course, we have to recognize that it is very difficult to mobilize urban residents to move to the countryside. Many people came to the cities recently, and urban life is much better than rural life, so it is not easy to persuade them to return again. There could be much conflict if we do not handle this well. We must recognize this difficulty.

Nevertheless, can we afford not to mobilize city dwellers to move to the



countryside? No, that would create an even more serious problem.

First, this would dampen the motivation of the production brigades, communes, counties, subprovincial administrative regions<sup>40</sup> and provinces that have achieved high-yield grain production. If urban residents do not move out of the cities, there will be many more people requiring food from the countryside. Can we request this of disaster areas? They cannot provide it. We can ask for it only from those provinces, subprovincial special administrative regions, counties and communes and production brigades with high-yield production. It is actually very egalitarian to ask them for more. Not allowing them to consume more when they produce more and leaving them only 150 kg of unhusked grain might be possible for one year, but such a situation could not endure. In commodity grain production areas such as Heilongjiang and Hangzhou-Jiaxing-Huzhou,<sup>95</sup> if the grain consumption allowance remained very low for a long time, the motivation to increase grain output would disappear and high-yield areas would become low-yield ones. There are not many high-yield production counties. There are 23 in Zhejiang Province, which are responsible for 74 per cent of the grain purchased in the whole province. There are six high-yield counties<sup>96</sup> in the Suzhou Subprovincial Administrative Region of Jiangsu Province. We rely mainly on that region to purchase 600 million kg of paddy rice which is turned over to the central authorities and used to supply Nanjing. It will be very disadvantageous for agricultural development in our country if we weaken the peasants' motivation in these high-yield areas.

Second, livestock will continue to die in large numbers. A small quantity of feed grain is being left for them to consume (40 kg per large cow and 30 kg per pig). Livestock cannot win in a struggle for grain with human beings. People will consume the feed grain while livestock continue to die in large numbers. This will do severe damage to agriculture because we still must rely on domestic animal power and manure instead of machinery and chemical fertilizers for agricultural production.

Third, the output of cash crops will continue to decrease. If we purchase more grain from the countryside and sell less, peasants will not have enough food to eat. They will cut back on cash crops in order to survive, without regard to your cotton plan or your issuance of cloth coupons. If we do not want them to cut back on cash crops, we must provide them with grain. For example, it would not be difficult to restore peanut growing areas in Shandong Province. We need only provide 250 million kg of grain and set a proper price. If we do not do this, even though we tell the peasants that cultivating cash crops is a "political task," they will grow only a small amount on the edge of the land and continue growing grain in the middle.

This will not only make it difficult to maintain the urban market but it will also be disadvantageous for the development of agriculture as a whole. What can you give to peasants after you take away their grain? You cannot always pay them in high-quality candies at those times when they still lack clothing. From the above it can be seen that the continuing drop in cash crop production will be very disadvantageous, both for the people's livelihood and for the development of the national economy as a whole.

Fourth, grain imports will have to be increased. If urban residents do not move to the countryside, we shall have to import 5 billion kg of grain each year. This would be a very heavy burden. We exported grain several years ago, spending the foreign exchange earnings mainly to import complete sets of equipment and important raw and semi-finished industrial materials. At present, if we spend most of our foreign exchange importing grain, we shall definitely have to reduce the import of complete sets of equipment and important raw and semi-finished industrial materials. This will greatly affect national industrial development.

In short, there will be many difficulties as mentioned above if we do not mobilize city dwellers to go to the countryside. The foundation of the national economy is agriculture, so industry and other sectors will improve only if agriculture improves. Therefore, neither industry nor the cities should squeeze agriculture and the countryside, but instead, they should give way to them. At present we are facing such a situation because it is difficult to support so many people in the cities and also difficult to mobilize people to go to the countryside. Taking the situation as a whole and comparing the two difficulties, the difficulty in providing for too many urban residents is more serious. Therefore, we have no alternative but to mobilize urban residents to move to the countryside. Only by doing so can we stabilize the overall situation and ensure the restoration of agricultural production.

We must be very decisive about mobilizing large numbers of urban residents to go to the countryside. There are probably two issues that prevent us from making such a decision.

The first one concerns the estimate for the speed of agricultural recovery. If we say that agriculture will recover very soon, people will ask why we should take such an unnecessary measure as mobilizing urban residents to move to the countryside, since agriculture will soon recover. As to this issue of agricultural recovery, Premier Zhou has already done an analysis and he thinks that agriculture cannot recover very quickly. Even if agricultural production returns to the pre-1957 level, we shall still be unable to maintain grain supplies. In order to accomplish that, production would have to reach at least the 1958 level. To reach that level, it would take three to four years,

even if output were to increase by 10 to 15 billion kg of grain each year from now on. Can we adequately increase the means for promoting agricultural production such as chemical fertilizers and irrigation and drainage machines all at once? It is impossible. Premier Zhou addressed this issue, and I also considered it. Therefore, the issue facing us is whether to allow the large population in the cities to consume food while waiting for agriculture to develop, or whether to move people out of the cities now. I do not think that we can wait—people must go to the countryside immediately.

The second issue is the fear that industrial production will be affected. Will industrial production be greatly affected if urban residents are mobilized to move to the countryside? I think it will be slightly affected. Industrial production cannot be increased unless we cut the urban population. If we reduce the number of people, production will probably improve. For example, with regard to the production of coal, iron and steel, we could say that we have made a very great effort, but production has not increased since January. The big problem is a lack of raw and semi-finished materials. Cotton production has fallen, so many textile mills will have to stop operating. Since coal production has not increased, the work in many iron and steel plants will be held up. An insufficient supply of iron and steel will put many machinery factories out of work. If there are not enough building materials and equipment, many capital construction projects will have to be abandoned. This shows that an increase in industrial production does not depend on the number of workers we have. My question is this: Can we end the delay in production due to a lack of materials by December 31 of this year and experience a great improvement starting in January of next year? I do not think this will be possible. We cannot expect industrial production to improve suddenly.

Let us first consider coal production. According to the plan drawn up last year, daily raw coal output this year should be 650,000 tons in the first quarter, 700,000 tons in the second quarter and 850,000 tons in the third quarter. I once estimated that output would probably reach 600,000 tons in February and 650,000 tons after March 15. However, it is already the end of May and daily output is only a little over 530,000 tons. Why isn't coal output increasing? I talked with several comrades from the Ministry of Coal Industry and also with some local authorities. They told me that low coal output is due to the following problems: One is imbalance in factors of reserve resources; the second is that a lot of machinery and equipment is in disrepair, but still being used; the third is the insufficient supply of grain and non-staple foods for workers; and the fourth is the need to improve some of the production links. All of these practical problems must be solved;



otherwise, output will not increase even if we do a good job in the rectification<sup>97</sup> in the next two months. These problems, however, cannot be solved quickly.

With regard to reserve resources in the coal industry, there are problems concerning the front and back, the left and right, and the upper level and lower level. The problem concerning the front and the back is that the digging volume should exceed the mining volume under normal conditions, but currently it is just the opposite—there are no reserves. The problem of the left and the right is that several tunnels should exist at one time so that workers can turn into a second tunnel as soon as they finish the first, and in case of an accident in one tunnel, they should be able to turn into another. But now the situation is that there are no new tunnels, or only a few if any, prepared on the right while mining is being done on the left. The problem of the upper level and lower level is that preparations should be made in the lower level while workers are mining on the upper level so that they can mine continuously level by level. It can be called up and down when the old tunnel is expanding downward and a new tunnel is opened in place of the old finished one. The problem at present is that we consider only the present and mine on one level without considering or preparing for future work. Here the front-back problem can be solved in two to three months, and the left-right problem can be solved in five to six months, but it will take two to three years to solve the upper-lower problem. As to how many front-back, left-right and upper-lower problems exist in the coal industry, I do not have detailed information. However, coal output will definitely not increase very much in the next few months, and it might decrease if there are mishaps. Also, we have not discussed here the unrepaired equipment and other problems affecting production.

Next, let us look at iron ore mining. During these years of iron and steel production, we have mainly paid attention to iron and steel smelting, disregarding both iron ore mining and the manufacture of steel rolling equipment. Because of the shortage of steel products, little mining equipment is manufactured. As a result, iron ore mining has not been mechanized and mining methods remain backward. About half of the mines under the Ministry of Metallurgical Industry are small ones using indigenous methods and following the mass line;<sup>98</sup> the other half are large ones using modern methods and following the mass line.<sup>99</sup> It is very difficult to mechanize iron ore mining. We used to establish small indigenous mines using manual mining, producing some ore from the surface. We have now finished mining the ore on the surface and need to mine underground, which will require construction work to install equipment for pumping water, ventilation,



lifting and so on. To transport iron ore we relied mainly on manpower, utilizing only handcarts. Presently we cannot afford to use so much manpower just to transport iron ore, so we need to shift from a manual to a mechanized operation. Another problem is to process poor quality ore into rich ore. Currently, we use ore regardless of whether it contains 30 per cent or 40 per cent iron; it is all used, so a lot of coal is being wasted. In order to increase the percentage of iron in furnace material, we must pulverize it, magnetically select it and then smelt it into rich ore. It will take three years to complete the transition from working on the surface to working underground, from manual to mechanized work, from poor to rich ore, that is, to convert small mines using indigenous methods into small mines using Western methods.<sup>98</sup>

It is also a big problem not to have railroads for transporting ore. Mining means nothing other than moving stones. We cannot continue just using manpower to push carts; we must build railroads. The Niushoushan Iron Mine is a small mine ten kilometres from Nanjing. There are 1,300 workers, among whom 1,000 transport stones. The Longyan Iron Mine<sup>100</sup> in Hebei Province produces 2.9 million tons of ore annually and has 300,000 metres of underground rails. It will take a very long time to construct such a mechanized mine.

Moreover, it also takes time to solve the problem of coking. Currently many plants are engaged in coking without first having thoroughly washed the coal or using indigenous methods, so too much coal is used and the results quality is poor. Unless we want to wash the coal and Westernize indigenous coking, we have to add a great deal of equipment.

If we do not greatly increase coal output and do not increase iron and steel output, neither light industry, heavy industry nor capital construction can be developed. The total number of workers and staff in the country increased by more than 25 million in the past few years. Among the units in which the number of workers and staff increased, the largest increase was in the capital construction departments, which increased by more than 4.2 million; the second was the machinery industry, which increased by 3.2 million. If the iron and steel industry develops, a large increase in capital construction projects is impossible. Other departments too will barely develop if there is a lack of raw and semi-finished materials and there will not be much work for enterprises or for capital construction units to do. Moreover, we shall not be able to rely on imports of raw and semi-finished materials because we will have spent our foreign exchange importing grain and there will not be much left. Because of these factors, I do not think the readjustment of industry will be a one-year undertaking. Actually, we are already

experiencing unemployment in the country due to this situation. In the textile industry, 5 million spindles have stopped operating, and workers have nothing to do after they eat. The food industry increased by 550,000 workers in the last three years, which could be considered a small number, but again, many people have nothing to do. Therefore, it will not directly affect industrial production, capital construction or the upgrading of industrial enterprises and mines to mobilize large groups of workers to farm in the countryside. In the future, after agriculture has improved and peasants are able to supply enough grain, this issue of relocation can be discussed again.

We recruited over 25 million workers and staff in the last three years, resulting in an urban population increase of 130 million. Considering the present situation, this was not appropriate. At the time, we had no experience and overestimated grain production. We thought that we needed to establish more factories even if they were small and indigenous and that this would be beneficial as long as we could produce, even if we had to utilize many people. Thus we recruited a large number of people. Can we promote industry with handicrafts or semi-handicrafts—semi-mechanized methods? At certain times and under certain circumstances we can, as long as we have a sufficient supply of grain, but we should consider the economic returns. The present circumstance is not like this. We do not have enough grain, the industrial scale is too large, and we have too many workers who have no jobs to do. We cannot continue in this manner.

Some argue that even if workers are sent to the countryside, they will still have to eat, so food will be consumed in any case. Actually, feeding people in the countryside is very different from feeding them in the cities. How big is the difference? I think it is very large. During the first year that workers are in the countryside, we can supply 75 kg less per person; that will amount to 750 million kg if 10 million people move to the countryside, or 1.5 billion kg for 20 million people. This would be the difference in the first year. The more obvious difference would be evident in the second year. Workers who were originally from the countryside will have returned home, and workers whose homes were originally in the cities will have set up homes in the countryside. They will all have joined in collective production and distribution, and because of the additional harvests from private plots, they will not need any state supplied grain. Thus, we can save 2.25 billion kg of grain if 10 million people go to live in the countryside, and 4.5 billion kg if 20 million people go there.

Will workers be idle after moving to the countryside? I do not think so. There is much work in the countryside, and they can do a little bit of this and a little bit of that. They can always produce something, including

products for export. Many agricultural capital construction projects such as leveling land, building canals, as well as fine plowing and farming will help further increase the output of grain and other farm and sideline products.

The points mentioned above demonstrate that we should determine to mobilize urban residents to go to the countryside. Making this decision soon is better than making it later. I think that, in general, we should persuade all those who came from the countryside in the last three years to return to the countryside. Of course it might be difficult for all of them to return, but the majority should return home. As to small retailers and capitalists who are originally from the cities, we do not have to mobilize them to move to the countryside. As long as we do a good job, we can definitely accomplish, with remarkable results, the major task of cutting back the number of workers and staff and mobilizing urban residents to move to the countryside, a task that will benefit the whole country.

## RURAL SURVEY OF QINGPU COUNTY

*August 8, 1961*

I spent 15 days from late June to early July at Xiaozheng People's Commune in Qingpu County in Shanghai carrying out rural studies. I am quite familiar with the situation there since that is the place where I participated in the peasant movement in 1927, and I have been in frequent contact with people in this area since liberation. Before I went there, Comrade Xue Muqiao<sup>101</sup> led a working group to investigate the area for a week. Two comrades in his group had participated in the peasant movement in 1927 with me. The peasants knew us and dared to air their opinions. I listened to two reports by the commune Party committee and held ten discussions on the following special subjects. 1. pig-raising by the collective, 2. pig-raising by individuals, 3. cropping arrangements, 4. private plots, 5. returning or compensating for what had been unduly taken while egalitarianism and indiscriminate transfer of resources was practised,<sup>92</sup> 6. rural commerce, 7. commune industry and handicrafts, 8. targets stated in contracts for fixed output of grain, state quotas for purchase of grain and peasants' motivation, 9. the question of cadres and supervision over them by the masses, and 10. guarding against pilferage and protecting production. Some of the discussions were designed to investigate the peasants' conditions, and some were for exchange of ideas with the members of commune Party committee. I went to the peasants' houses several times to see how they raised pigs and even tilled their private plots, and I investigated the housing and food they had. The peasants both commended and criticized our Party. Their criticisms and complaints boil down to the following four: first, they do not have enough to eat; second, the cadres at the grass-roots level set high quotas arbitrarily, disregarding realities, and they lead privileged lives without participating regularly in labour; third, the cadres give arbitrary production orders but they refuse to make self-criticisms before the masses; and fourth,

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A letter and three investigation reports to Comrade Deng Xiaoping on the situation in the rural areas.



because collective production has not been organized well, the peasants lack motivation for it, but they show great motivation to work private plots and to engage in sideline production. Nevertheless, the peasants admit that since liberation they have benefited greatly. These benefits manifest mainly in five respects: 1) within the distributed land, “it is easy to get through to the New Year”; 2) marshlands<sup>102</sup> have been filled in (the commune has a total cultivated area of 24,000 *mu*, of which 7,000 *mu* are marshlands); 3) more land has come under electric irrigation (which accounts for 80 per cent of the cultivated land); 4) more chemical fertilizers are available (averaging 15 kg per *mu* in the last two years); and 5) though they are sometimes wronged by the cadres, things are now much better than they were under the rule of the Kuomintang.

Later on, I went to Hangzhou and Suzhou to visit a few counties (such as Jiaxing and Jiashan) in Jiaxing Special Prefecture<sup>103</sup> and to a few counties (such as Wuxian, Wujiang and Kunshan) in Suzhou Special Prefecture<sup>36</sup> where the conditions are similar to those in Qingpu County. I discussed how to grow double cropped rice and wheat with the secretaries of the Party committees of these counties and with the secretaries of the Party branches of some production brigades, and asked in passing about pig-raising and private plots. Furthermore, I also visited comrades from the Party committees in Xiaoshan and Wuxi counties, which differ from Qingpu County in land, population and climate. I did some research on cropping arrangements by investigating cropping and making comparisons. Finally, I exchanged views with comrades from the Shanghai Municipal Party Committee and the Zhejiang and Jiangsu Provincial Party Committees on pig-raising, cropping arrangements and private plots. The investigation reports on these three issues are enclosed herewith for your reference.

### SOWS SHOULD BE RAISED BY PEASANTS

—Survey Report (I) on Xiaozheng  
People’s Commune, Qingpu County

The policy for pig-raising has already been defined, i.e., pigs are to be raised both by the collective and by individuals, with stress on the latter. But it is not explicitly stipulated whether sows should be raised by the collective or by individuals. We need to find a solution to this issue quickly. As we have seen and heard, most of the people’s communes have allowed commune

members to raise pigs, but most sows are still being raised collectively by the communes, production brigades and production teams. Many communes remain undecided whether sows should be raised by commune members, and they are taking a wait-and-see attitude. After we visited ten of the 15 pig farms in Xiaozheng People's Commune and held two discussions on pig-raising, we were made aware that sows were raised well by individuals and that these sows bore more piglets with a high survival rate. In contrast, there are less pregnancies and more miscarriages among the sows raised by the collective, and the piglet death rate is high. We got the same impression from the discussions with cadres in some communes in Jiaxing and Suzhou prefectures. The facts demonstrate that to restore and develop pig-raising rapidly, more piglets are needed, and that if we want to have more piglets, sows must be raised by individuals. This is the key to restoring and developing pig-raising rapidly in the future.

#### I. SOWS RAISED BY INDIVIDUALS GROW WELL AND BEAR MORE PIGLETS

Peasants in Xiaozheng used to raise sows; about three out of ten households raised sows. Before the communes were established universally, the 2,400 households raised a total of 700 to 800 sows that gave birth to more than 10,000 piglets a year. Some piglets were kept to produce pork and the rest were sold to people in neighbouring areas in exchange for feed. After having sows raised by the collective, the total number of sows in the commune increased to 1,500 in 1960, but they bore only 6,704 piglets. On average, one sow gave birth to only four and one-half piglets a year, and 5,993 piglets died; the death rate reached 89 per cent. Moreover, 710 sows had miscarriages, resulting in a loss of 4,196 piglets. When sows were raised by individuals before we organized communes throughout the country, each sow on average bore 14 to 15 piglets a year and the death rate of piglets was only 6 per cent. According to the administrative personnel at the pig farms, sows raised by individuals grew well because each sow was under the care of several people. Sows raised by the collective can hardly grow well, because several sows are taken care of by only one person. (One stockman looks after an average of ten sows. If those who grow, harvest and transport feed as well as the administrative personnel at the pig farms are included, on average, four sows are under the care of each person.) Peasants who were experienced in sow-raising remarked that when they were raising sows, they would make

more money if the sows were raised well. Otherwise, they would suffer losses. Therefore, they took good care of sows as if they were caring for pregnant women and looked after piglets as if they were treating babies. They listed the following advantages to private sow-raising over collective sow-raising:

1. Sows are fed properly. Feed is provided to sows and piglets according to their different needs at different periods, with more concentrated feed at some times and more green fodder at other times, more dry feed at some times and more liquid at other times. The peasants observe the sows and piglets as they eat so they will know what kind of feed they prefer. This also enables the peasants to discover which pigs are sick and are not eating. When pigs are raised by the collective, the feed is always bland, like "food in a big pot," without distinction between dry and liquid feed, and nobody is concerned with how much food the pigs consume.

2. The pigs are bedded down properly. When pigs are raised by individuals, green grass is used to bed down the pigs. The pigsties are clean and comfortable. The sows and piglets are kept clean, and they seldom fall ill. When pigs are raised by the collective, only a little rice straw is used to bed down the pigs because nobody collects green grass. Sows and piglets living in wet pigsties are always muddy and often fall ill.

3. Special attention is given to the pregnant sows, and they are protected from being frightened. Some peasants do all they can to prevent the sows from being disturbed by thunder or firecrackers. They let the sows out when they are cleaning the pigsties lest the sows become disturbed.

4. Attention is given to delivery. When the sows are about to give birth, the peasants sleep by the pigsty and see to it that no piglets suffocate under the body of the sow.

5. Piglets are under special care. Special care is given to the last-delivered, smallest, or weakest piglet, which is put on the third nipple, the one with the most milk. After this arrangement, the piglets get used to being nursed on the same nipples, and they mature without some being too big and others too small.

6. Measures are taken to prevent heatstroke in summer and to preserve heat in winter. In summer, water weed is used in the pigsty, and sows stay cool sleeping on it. Dry grass is used in the pigsty in winter, making it easy to preserve heat in the well-covered small pigsty. When pigs are raised by the collective, pigsties are cold in winter because they are too large. The piglets, jamming into the rice straw or under the belly of the sow in order to insulate themselves from the cold, are easily crushed to death.

As it is more difficult to raise sows than porkers, some comrades are afraid that peasants may not be able to raise sows. But to our understanding,

all the households that want to raise sows are experienced in doing so. When they raise sows, they try to prevent nonpregancies and miscarriages and to help the sows bear more piglets with a high survival rate. Owing to proper breeding, a sow raised by an individual will bear and rear at least two times as many piglets a year as a sow raised by the collective.

## II. INDIVIDUAL BREEDING OF SOW AND PORKERS HAS SEVERAL ADVANTAGES OVER COLLECTIVE BREEDING

1. Relatively ample feed is available for the pigs raised by individuals. It is impossible to rely solely on concentrated feed to raise pigs. Much green fodder has to be used. Privately bred pigs have a more sufficient supply of green fodder than those bred collectively. When households raise pigs, water weed and green grass can be collected by auxiliary labourers or during off hours. Tender and fresh weeds and grass are collected for pigs to eat and mature grass and weeds are used for the pigsty. On the very evening when it was announced in Xiaozheng People's Commune that most sows, piglets, and porkers were to be raised by commune members, and during the following morning, many households desiring to raise pigs vied with each other to collect water weed and green grass to be dried and stored for pig feed in winter. It is thus obvious that, given the same amount of concentrated feed to be supplied by the state, privately raised pigs will receive more feed than collectively raised pigs, and also better feed.

2. Privately raised pigs mature more quickly than those collectively raised. Owing to better feed and better sleep, privately bred pigs grow faster. A porker grows an average of 250 grams per day, and a piglet weighing over 10 kg will mature to a weight of around 50 kg in four or five months. With the same amount of concentrated feed, a collectively bred pig will gain an average of only 2.5 to 3 kg per month.

3. More manure is collected when pigs are raised by individuals. Because a great amount of green grass is used to bed down the privately raised pigs, more manure of good quality is collected. When pigs are raised by the collective, only a small amount of rice straw is used in the pigsty, and so less manure which is of poor quality is collected. Some 10 tons of manure per privately raised sow per year can be collected, while in the case of collectively raised sows, only 5 tons per sow per year can be collected, equivalent to 3 to 4 tons of fertilizer.

4. Auxiliary laborers and off hours can be utilized when pigs are raised



by individuals. A peasant who raises porkers does not have to absent himself from work if he has an auxiliary hand; one sow will cost him only ten to 20 working days a year. Full-time workers are needed when pigs are raised by the collective. One labourer in Xiaozheng People's Commune can look after only four sows or ten porkers. Some 300 labourers are engaged in raising 2,400 pigs (including piglets) in the commune and its brigades. On average, one labourer can look after only eight pigs.

5. Rice straw can be saved if pigs are raised by individuals. At least one kg of rice straw per pig per day is used for cooking feed and bedding when pigs are raised by the collective, which totals over 350 kg per year, a little bit more than the rice straw collected from one *mu* of paddy field (about 300 to 350 kg). When individual breeders cook their food, they can use the fire left burning in the stove to prepare pig feed and use green grass to bed down pigs, thus saving on straw.

For the above reasons, private pig breeding is profitable while collective pig raising causes losses. According to the peasants, a sow can give birth to 12 to 16 piglets a year which can be sold at 180 to 200 yuan. A porker of over 50 kg can be sold for 30 to 40 yuan. If two porkers a year are raised, they will bring in 60 to 80 yuan. Losses are common in collective pig-raising. Last year, Xiaozheng People's Commune suffered a loss of over 38,000 yuan owing to collective pig-raising, each household bearing an average loss of 16 yuan. The figure is even greater if the investment of about 70,000 yuan for capital construction is taken into account.

We also asked about the drawbacks to pig raising by individuals. The cadres mentioned the following two problems. First, they are afraid that peasants might butcher porkers on the sly and sell them on the black market. Second, they also worry that peasants might refuse to sell pigs at times when the state urgently needs pork for the market. Nevertheless, these two drawbacks can be avoided if we formulate correct policies and strengthen management. At the same time, the state and the collective can also raise some porkers to meet urgent market demands.

### III. THE PIG-RAISING INDUSTRY CANNOT BE RESTORED AND DEVELOPED UNLESS SOWS ARE RAISED BY INDIVIDUALS

If porkers are being raised by commune members and sows are being raised by the commune, production brigades or production teams, can we really say that we are now carrying out the policy that pigs are to be raised

by both the collective and individuals, with stress on the latter? In our view, the policy has not been carried out thoroughly, and the percentage of pigs raised by the collective is still too high. We say this for the following two reasons:

First, it may seem as though priority has been given to private breeding, since few sows are being raised by the collective but many porkers are being raised by individuals. Actually, that is not how things stand. Under normal conditions, each collectively raised sow nurses four to five piglets. Usually, sows and suckling piglets account for one-third to one-half of the total number of pigs. Therefore, with sows being raised by the collective, the piglets and boars included, more than one-third to half of the pigs are still being raised by the collective. Of the 3,720 pigs in Xiaozheng People's Commune at the end of last June, only 1,437 were porkers—less than 40 per cent. The remaining 60 per cent were sows, boars and piglets. Since most sows and a small portion of porkers are raised by the collective, by the end of June, two-thirds of the pigs in Xiaozheng People's Commune were being raised by the collective and only one-third by individuals. By the end of June, only one fourth of the 850,000 pigs in the ten suburban counties of Shanghai were being raised by individuals.<sup>104</sup>

Second, it is more difficult to raise sows than porkers. As we said earlier, when sows are raised by the collective, there are more nonpregnancies and miscarriages and the death rate of piglets is high. Developing pig-raising rapidly requires increasing the number of piglets. The total number of pigs in Xiaozheng People's Commune reached 15,000 to 16,000 in 1957. In 1960, after sows were being raised by the collective, the number of pigs decreased by nearly two thirds, that is, only 5,600 pigs were raised. According to the statistics for last June, the 909 collectively raised sows in the entire commune were nursing only 1,234 piglets, less than two piglets per sow. It is impossible to rapidly improve the present situation in raising sows by relying on the collective. If sows continue to be raised by the collective, many piglets will probably die this winter. Only by a quick transfer of sows to individual commune members can the birth and survival rates for piglets be greatly increased, can a large number of piglets be supplied and will the pig-raising be rapidly developed next year.

After sows are being raised by commune members, we must solve problems concerning piglet market transactions. We can consider restoring the previous country piglet markets under the leadership of state commercial departments or the supply and marketing cooperatives. Peasants who sell piglets should be rewarded with a certain amount of feed and meat coupons so as to ensure a rapid increase in the supply of piglets.

#### IV. WE SHOULD PROCEED FROM ACTUAL CONDITIONS TO ENCOURAGE PRIVATE SOW BREEDING

Having most of the sows raised by commune members does not run counter to the policy of raising pigs both by the collective and by individuals. In areas where people have had experience in raising pigs, there is no problem in letting commune members raise most sows. However, peasants in about ten communes in the vegetable-growing areas in the suburbs of Shanghai lack this experience. Therefore, we should not allow these commune members to raise most of the sows. In these areas, it might be necessary for government departments or communes to continue to experiment with running pig farms. But plans should be worked out based on the availability of feed and efforts should be made to improve management. At the same time, we should explore all the possibilities of private breeding and assist peasants in raising more pigs. Generally speaking, to improve the breed, communes or production brigades should raise fine breed boars and fine breed sows. In doing so, priority should still be given to private breeding, though joint efforts will be made by the collective and individual breeders.

As the suburban areas of Shanghai must supply pork to 7 million urban residents, it is imperative to attempt various methods of rapidly developing pig-raising. Pigs can be raised by government departments, communes, production brigades, or by commune members. What exactly is the best way to raise more pigs successfully? We still need to explore this. At present, peasants have great potential for raising pigs. Private plots have now been reallocated in the rural areas; grain rations have been allocated to households and the chaff from grain processing is now retained by the peasants. All this has created favourable conditions for peasant pig-raising and has aroused a lot of motivation. By the end of last June, over 800,000 households in the suburbs of Shanghai had raised only 210,000 pigs, one pig per four households. The total number would be four times as large if each household raised one pig. To fully tap the great potential for raising pigs among the commune members, most collectively raised sows and piglets should be transferred to commune members. This problem has not been solved in many areas. Solving this problem is of great importance to the rapid development of pig-raising in the days to come.

## DOUBLE CROPPING OF RICE IS NOT AS GOOD AS PLANTING A SINGLE CROP OF RICE AND BROAD BEANS

—Survey Report (II) on Xiaozheng  
People's Commune, Qingpu County

Xiaozheng People's Commune is located in an area with low-lying land. The average amount of cultivated land per capita for the agricultural population is 2.4 *mu*. In the last few years, agricultural production there has remained quite stable. Grain output in 1960 exceeded that in 1957, approximating the bumper harvest of 1956. There are two controversial questions concerning the cropping arrangement: First, should the method of double cropping rice be used? Second, should more wheat or more broad beans be planted? The peasants do not want to plant double cropped rice or more wheat, thinking that this will result in "nominal increase but actual decrease, the loss outweighing the gain." After holding repeated discussions with the cadres and peasants in the commune and brigades, we think that the peasants' view is reasonable.

### I. WHY DOUBLE CROPPING OF RICE IS NOT AS GOOD AS PLANTING A SINGLE CROP OF RICE

In planting double cropped rice in the Xiaozheng area, the per *mu* yield for the early crop is about 250 kg and about 150 kg for the late crop, totalling some 400 kg. All the land used for double cropping of rice is upland fields.<sup>105</sup> The single cropping of late rice grown in upland fields yields about 290 kg per *mu*. In comparison, the per *mu* output from double cropping of rice is about 110 kg higher than that of single cropping. Superficially, then, more grain can be produced by double cropping. However, when we do an overall accounting, we see that double cropping of rice incurs great losses and that it is actually not worthwhile.

1. The output of fields with extra seedlings for double cropping of late rice is affected. Peasants here get used to planting seedlings for the late crop of double cropped rice in fields used for single late rice crop, that is, more seedlings are transplanted to fields for single late cropped rice. Then, in early August, half of these are pulled up and transplanted to fields for the late crop of the double cropped rice. As a result, fields planted with these seedlings will yield about 75 kg less per *mu*. (If the output of the single crop of late



rice is about 290 kg per *mu*, then the output in the field that includes seedlings for the late crop of double cropped rice will be only about 215 kg per *mu*.)

If seedlings which were fully developed in the seedling beds are used, fewer seedlings can be grown per seedling bed, and one *mu* of seedlings is sufficient for transplanting to four *mu* of paddy fields. Even so, the seedlings are quite thin and weak. The late crop of rice grown from such seedlings yields only about 125 kg per *mu*, 25 kg less than the late crop with seedlings retransplanted from the single-cropping field. Only the late crop of the double cropping can be planted in seedling-bed fields; the early crop cannot. Because of the lateness, per *mu* output is only some 125 kg, 165 kg less than the per *mu* yield of 290 kg of the single cropped late rice. The 165 kg, which is shared by the other three *mu* of land, amounts to 55 kg less in per *mu* output. The two losses total to 80 kg, a little bit more serious than the per *mu* loss (75 kg) in the field with seedlings for the late crop of the double cropped rice.

2. More seeds are used. Twice as many seedlings are used for the early crop of double cropped rice. Moreover, cold weather causes low survival rates. Thus, 20 kg of seeds are needed per *mu* for the early crop. Counting the 7.5 kg for the late crop, the seeds used total 27.5 kg per *mu*. In comparison, one *mu* of single cropping of late rice requires only 7.5 kg of seeds, 20 kg less than double cropping of rice.

3. No summer crops (beans, wheat) but only safflower can be planted if there is double cropping of rice. But in the case of single cropping of rice, one crop of broad beans or wheat can be planted in summer. The per *mu* output of beans or wheat is 40 to 50 kg, or 30 to 40 kg after subtracting for seeds.

The above-mentioned three items amount to from 125 to 135 kg, which is a greater yield than the 110 kg from double cropping of rice. Therefore, double cropping of rice is not as profitable as single cropping of rice plus one crop of beans or wheat. Furthermore, double cropping of rice causes the following indirect losses.

4. More manure is applied. Owing to the short growing period of the early crop of double cropped rice, more manure has to be applied. The late crop requires about the same amount of manure as does single cropped late rice. Compared with single cropping of rice, the above-mentioned output of double cropped rice can be obtained only when at least an extra 750 kg of excrement or barnyard manure and an extra 7.5 kg of chemical fertilizer are applied per *mu*. At present, the fertilizer applied to the single cropped rice is not adequate. If the extra amount of fertilizers used on double cropped

rice is applied to single cropped rice, the per *mu* output of the latter will increase by at least 20 kg.

5. More manpower is required. This is an area with a small population in relation to farmland. If double cropped rice is planted, there will be a serious shortage of hands during the period of rush-harvesting for the early crop and rush-planting for the late crop. As a result, the fields of single cropped late rice will be weeded one time less than normally. Moreover, this is also the best period to collect water weeds and grass for feed and green manure. The manpower saved in growing one *mu* less of double cropped rice can be used for weeding, collecting and applying green manure to the fields. By doing so, the per *mu* yield of a single crop of late rice would be further increased by at least 10 kg.

6. Less rice straw is harvested. Because the plant stem of double cropped rice is short, there is less straw collected from double crops than from single cropped rice.

On the whole, although the per *mu* yield of double cropped rice exceeds that of single cropping of late rice by 110 kg, the various losses caused by the double cropping total from 155 to 165 kg. In comparison, the loss obviously outweighs the gain when rice is double cropped.

## II. WHY GROWING MORE WHEAT IS NOT AS ADVANTAGEOUS AS GROWING MORE BROAD BEANS

As this is an area with low-lying land and a high water table, it is not suitable for growing wheat. The reason why the peasants want to grow less wheat and more broad beans is that the income from growing wheat is less than that from growing broad beans.

1. One *mu* of upland field here yields only about 40 kg of wheat. (It was only 31 kg this year.) The net output is about 30 kg after withholding 10 kg for seeds. Per *mu* output of wheat in marshlands is merely 15 to 20 kg, and little is left after withholding for seeds. One *mu* of upland field yields some 50 kg of dry broad beans. Forty kilograms of wheat are worth about 9 yuan, while 50 kg of broad beans are worth about 11 yuan.

2. It requires more fertilizer to grow wheat. Seven hundred and fifty kilograms of barnyard manure have to be applied to one *mu* of wheat, while 250 kg are enough for one *mu* of broad beans. Wheat consumes more of the fertility of the soil than do broad beans because the nodule bacteria of legumes are nitrogen-fixing. With the same amount of fertilizer, per *mu*

output of rice grown in a broad bean field is 25 kg higher than that grown in a wheat field. An increase of another 10 kg is possible if the 500 kg of barnyard manure saved from the broad bean field is applied to the rice field. The two figures add up to an increase of about 35 kg of rice per *mu*.

3. If broad beans are planted, people can consume some of the green broad beans rather than having to eat only dry broad beans. The beanstalks left over from the green broad beans can be used as green manure; the beanstalks from one *mu* of broad beans can be applied as base fertilizer to two *mu* of paddy fields with more or less the same fertilizer efficiency as one *mu* of safflower. The green broad bean is harvested 20 days earlier than the dry broad bean or wheat, which is relatively advantageous for planting paddy rice. Income from green broad beans is much higher than that from dry broad beans. One *mu* of green broad beans with bean pods, about 250 kg, is worth 25 to 30 yuan. Green broad beans can serve as vegetables, and consuming more green broad beans means consuming less grain. It is stipulated in Shanghai that 0.5 kg of grain can be deducted from the quota of grain to be sold to the state for every 3 kg of green broad beans sold; so for a 250 kg per *mu* yield, we can save 40 kg of grain.

4. It is worthwhile to export broad beans in exchange for wheat or barley. The export price of 1 ton of broad beans is £30, the import price of 1 ton of wheat is £22 to £23, and that of barley is £16. So, 1.32 to 1.36 tons of wheat or 1.88 tons of barley can be imported by exporting 1 ton of broad beans.

In recent years, the fertility of the soil has tended to decline owing to the large amount of farmland devoted to growing wheat and double cropped rice and the small amount of farmland planted with broad beans and safflower. Although the per *mu* output of grain has somewhat increased as a result of applying more chemical fertilizers, the fertility of the soil is not as good as it used to be. From a long-term point of view, we must resolve to change such an unsound cropping system rapidly.

### III. CROPS MUST BE ARRANGED TO SUIT LOCAL CONDITIONS

Traditional farming methods that have come to be used over a long period of time should not be changed rashly. Peasants used to plant no double cropped rice and little wheat in the Xiaozheng area. Before liberation, in winter, a peasant household that had 10 *mu* of land tilled about 7 *mu* of safflower, 2 *mu* of broad beans, 0.5 *mu* of wheat and 0.5 *mu* of rape. The

farmland devoted to double cropped rice last year increased to 14 per cent of the total, that of wheat to 24 per cent, resulting in less land for broad beans and safflower. Owing to this cropping arrangement, which did not conform to specific local conditions, agricultural production suffered, the peasants' income decreased, and the masses were very resentful. Although the farmland for double cropped rice has been reduced this year to 7.5 per cent of the total, the peasants think it is still too much.

The frost-free period in the suburbs of Shanghai as well as in Jiaxing and Suzhou prefectures is not long enough. Thus, generally speaking, it is not suitable for growing more double cropped rice. In areas like this, where large amounts of farmland are devoted to planting double cropped rice, manpower and fertilizers will be in short supply, and so the disadvantages of double cropping rice outweigh the advantages. The per capita farmland among the agricultural population in Jiaxing Prefecture is 2.8 *mu*. The acreage for double cropped rice last year amounted to 60 per cent of the total acreage for rice. Shortages of manpower during the rush harvesting and planting delayed farming. As a result, the two crops altogether yielded only 225 kg per *mu*, 24 kg less than the per *mu* output of single cropped rice. It is therefore, not realistic just to "change single-cropping to double-cropping" as the main measure for increasing grain output without first having studied the situation objectively.

In some localities, planting double cropped rice might be advantageous. For instance, Xiaoshan County in Zhejiang Province planted double cropped rice in 60 per cent of its fields, and it is said that it will probably have a bumper harvest. The reasons are as follows:

1. The frost-free period in this area is quite long, so it is possible to sow and yield an early crop ahead of time, and the transplanting of the late crop can be accomplished by the end of July (it is completed seven to ten days later in other areas). Frost comes late in this area. Therefore, it is possible for the per *mu* output of both early and late crops to be over 250 kg.

2. In this area, the per capita cultivated land is less than one *mu*, so there is sufficient manpower. There is also plenty of fertilizer because it is located near Hangzhou and a lot of fertilizer can be obtained from that city.

3. This is an area half cropped with rice and half with cotton and hemp,<sup>106</sup> so the schedule for planting rice and planting cotton and hemp can be staggered. Planting some double cropped rice will not cause delay in farming during the busy period of rush harvesting the early crop or rush planting the late crop, and the single cropped late rice will not be affected too much.

It is not suitable to plant more double cropped rice even in this area.



The peasants were very dissatisfied with planting too much double cropped rice last year.

Thus it can be seen that whether double cropped rice is planted or not and how much should be planted depend mainly on the length of the frost-free period and on the ratio of population to farm land. Under current circumstances, in the southern part of the Yangtze Delta, there can be more double cropped rice where the amount of per capita cultivated land is less than one *mu*; a small amount can be planted if the amount of per capita land is about 1.5 *mu*; and it would be better not to plant double cropped rice if the amount of per capita land is about 2.5 *mu*. In the northern part of the delta (such as Wuxi), it might not be suitable to plant double cropped rice even if the amount of per capita cultivated land is less than one *mu*.

How much wheat should be grown depends mainly on the terrain and the quality of the soil. Generally speaking, it is not suitable to plant a lot of wheat in low-lying land. Take Qingpu County for example. With the eastern part higher than the western part, more wheat has been grown in the east over the years, with a higher per *mu* output than in the west. The Shanghai, Baoshan, and Jiading counties of Shanghai and Jiangyin County<sup>107</sup> in Suzhou Prefecture are high-yielding areas for wheat and much wheat has been grown there over the years. But peasants in this area should also plant some broad beans and green manure crops to improve the fertility of the soil.

#### IV. IT IS NECESSARY TO CHANGE THE TIMING IN GROWING THE GRAIN TO BE CONSUMED BY PEASANTS

It is the common desire of all the peasants in the Xiaozheng area not to plant double cropped rice. They wish to plant less wheat but more broad beans and safflower. It was for the purpose of providing grain that quite a lot of wheat was planted last winter and some double cropped rice this spring. The grain provided last year was sufficient only until the end of June this year, so grain for the third quarter of this year must come from the wheat and the early crop of double cropped rice. If there is no double cropped rice and the wheat is planted on less acreage, third quarter grain must come mainly from the autumn harvest of the previous year. In other words, the grain must be provided to last until September of the following year. Thus, the "grain year"<sup>39</sup> has to be changed from July-June to October-September. For a long time since liberation, the grain for the peasants in this area has been consumed from October to the end of September of the following year.

There are some areas in the suburbs of Shanghai and in Jiaxing and Suzhou prefectures where conditions are similar to those in the Xiaozheng area. In the discussions with the cadres from the counties, communes and production brigades in Jiaxing, Jiashan, Wujiang and Wuxian counties, most comrades, after weighing the advantages and disadvantages, requested that they stop double cropping or that they decrease it and that they grow less wheat and more broad beans. But they held that in order to change the cropping arrangement, the problem of providing grain for the third quarter of the year must be solved. They calculate that by growing some wheat and some red rice and indica rice<sup>108</sup> (which can be reaped 45 days earlier than single cropped late rice) in the low-lying land which is liable to waterlogging, and by substituting broad beans for some of the grain, the third-quarter grain for all but a month and a half will be covered. If the state reduces the unified purchase quotas by 30 kg per person in the first year, then the scheduling for the grain could be changed. The total amount of state-purchased grain will not be reduced, because the 30 kg can be made up in the following year.

The population of the areas similar to that of Xiaozheng People's Commune is 550,000, of which about 250,000 is in Jiaxing Prefecture, 100,000 in Suzhou Prefecture and 200,000 in the suburbs of Shanghai. If we reduce the per person amount of grain in the unified purchase quota by 30 kg, this reduces the total by only 16.5 million kg. By simply reducing state purchase quotas by this small amount in the first year, real output of grain and the net income for peasants in this area will probably increase. More importantly, such an arrangement will gradually help to improve the fertility of the soil. After two or three years, soil fertility can be restored and improved. This will lay a sound foundation for increasing grain output in the future.

SET ASIDE ENOUGH LAND AS PRIVATE PLOTS IN  
ACCORDANCE WITH THE REGULATIONS FORMULATED  
BY THE PARTY CENTRAL COMMITTEE

—Survey Report (III) on Xiaozheng People's Commune

During the period of the advanced agricultural producers' cooperatives, over 700 *mu* of this land was private plots, which made up only three per cent of the total cultivated land in the Xiaozheng area. Of

these 700 *mu*, about 500 *mu* was land for growing field crops and the rest was “ten small plots of land”<sup>109</sup> when the people’s commune was set up, all the private plots were taken back by the collective. After the Zhengzhou Meeting<sup>110</sup> held in 1959, some 300 *mu* of land for growing field crops were set aside as private plots for peasants. However, these fields which were distributed in the spring were to belong to the collective again in the autumn, and the grain produced in these fields had to be turned over to the collective at the market price. Later on, even the “ten small plots of land,” which had been retained by the peasants, were turned into vegetable gardens for the collective canteens.

This spring, after the “60 Articles”<sup>89</sup> concerning the work in the rural areas was issued, 726 *mu* of land was redistributed to the peasants as private plots, less than 0.08 *mu* per person. Only 120 *mu* of the private plots, less than one fourth of that in the period of the advanced agricultural producers’ cooperatives, is land for growing field crops, which is 0.5 per cent of the total cultivated land. According to the cadres from the communes and production brigades, the present small number of private plots cannot meet the various needs of the peasants. The peasants should have more plots than they had during the period of advanced agricultural producers’ cooperatives.

In the discussions, the cadres in communes and production brigades said that it was advantageous for the peasants to cultivate more private plots for the following reasons:

1. More grain will be available. Owing to the shortage of grain, most peasants eat gruel for their four meals every day. Such a situation should not continue much longer. The amount of grain for food for the people in the suburbs of Shanghai is already larger than that in other areas, so an increase is impossible in the near future. Therefore, giving peasants more private plots for growing grain, melons and vegetables is the main method for increasing grain rations for the peasants.

2. It will facilitate pig-raising and manure collection. Fertilizers play a very important role in increasing grain output. An increase in fertilizers depends mainly on raising more pigs and growing more green manure crops. Nowadays, peasants cannot rely on bean cakes or bran supplied by other areas for raising pigs. Bran derived from processing the peasants’ food grain is not enough. So it is necessary to grow some grains other than wheat and rice for feed on private plots.

3. Peasants will be able to grow vegetables for their own consumption. The vegetables consumed by people in the Xiaozheng area used to be supplied by other areas. Now, only a small supply can be obtained. The peasants have

to grow vegetables on private plots for their own consumption.

4. Peasants will earn some pocket money. At present, the peasants have to borrow money from the production teams in cases of need, and they "have a harder time than a young daughter-in-law in front of the matriarch." With private plots at their disposal, they can grow something to sell. They can also raise chickens and ducks and sell eggs. It will save the cadres a lot of trouble if peasants have some money of their own.

5. Bamboo gardens can be restored and enlarged. Because there were not enough private plots, some peasants chopped down bamboo to clear the land to grow grain and vegetables. Consequently, there are now far fewer bamboo gardens than before liberation. This is disadvantageous. As timber is now in short supply, we have to use bamboo for many purposes, especially for weeding rakes and handles for harrows which need to be replenished every year. It is difficult to obtain bamboo from other areas. Therefore, peasants should use some private plots to grow bamboo and also do so around their houses.

On the one hand, the cadres in the communes and production brigades deemed it necessary to distribute more private plots to the peasants, but on the other hand, they still have all kinds of worries in this regard. They worry that the state grain purchase quotas will not be fulfilled if land under collective cultivation is reduced and that the commune members might only take care of their private plots and not participate actively in collective production. After discussions, they felt that there was no need to worry about this. Peasants can do a very good job in tilling private plots, and their per unit output is higher than that of the production teams. If they have additional private plots, the peasants can have more grain and somewhat improve their livelihood. Furthermore, the peasants' motivation for collective production is likely to be aroused after we take a series of measures, such as carrying out production contracts for fixed outputs, rewarding those who have overfulfilled their production targets, and distributing more to those who have contributed more. Since the peasants' motivation will be aroused, when peasants till private plots, collective production will not be hindered but can be expanded. With the development of production, it will be easy to fulfil the state purchase quotas.

The cadres from Xiaozheng People's Commune suggested in our discussions that the private plots be increased to 6 per cent of the total cultivated land (recently the Shanghai Municipal Party Committee has decided to increase it to 7 per cent). Of these private plots, land for growing crops amounts to only 3.5 per cent of the total cultivated land. Another 700 *mu* of such land should be distributed in order to reach this target. Because there



is 374 *mu* of land for growing feed for collective pig farms and for vegetables for canteens which can be distributed to the commune members, actually another 326 *mu* of land for growing field crops will be enough. This is not a very large amount.

## HOW WE CAN GAIN A MORE CORRECT UNDERSTANDING

*February 8, 1962*

At this enlarged working conference of the Central Committee,<sup>111</sup> the participants from Shaanxi Province held large and small meetings, all of which proved successful. Higher levels and lower levels communicated with each other. Comrades from prefectural and county Party committees offered opinions to the provincial Party committee and the Central Committee, and leading comrades of the provincial Party committees twice made self-criticisms. Criticism and self-criticism are essential to communication between higher and lower levels. We can unite only if there is communication, and without democracy there can be no centralism.

In recent years, our inter-Party political life has not been normal. “He just tells one-third to whomever he meets, so he does not give his whole heart to people.” This is a very dangerous situation. One cannot avoid saying something incorrect, because it is impossible not to say anything incorrect. Within the Party, we are not afraid that one will say something incorrect, but we fear that no one will speak out. There are some “clever people” whose greetings are simply “Aha, today’s weather...” when they meet people. They do not criticize shortcomings and mistakes when these are discovered. If this situation goes on, we cannot succeed in our revolutionary cause, we will definitely fail.

This meeting has been a very great success. We should not underestimate this. As long as we dare to carry out criticism and self-criticism, uphold the truth and correct mistakes, our Communist Party will be invincible.

It is not enough to rely only on a few leading cadres to discover problems, shortcomings and mistakes in our work. We must promote democracy and encourage the cadres and the masses to air their opinions on

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Excerpt from the speech delivered at the meeting of cadres from Shanxi Province who attended the enlarged working conference of the Central Committee of the Chinese Communist Party.

our work. We can arouse people's initiative and really do our work well only if we earnestly correct shortcomings and mistakes by paying attention to these criticisms.

The leading cadres should pay special attention to listening to varying opinions. Most people will voice only conventional thoughts and opinions. Usually, because some leaders do not tolerate contrary views, the people do not dare to speak their minds. As a result, the leaders never hear these. Therefore, we must be open-minded and be more open to opposing opinions. We must also understand that things are very complex, thus requiring that we listen to different opinions and sum them up through careful and detailed analysis in order to arrive at a comparatively comprehensive and correct understanding. There are many different ways to conduct investigation and study. Exchanging opinions with people who hold opposing views is one important way. We Communists should strengthen self-cultivation and should develop the good habit of being ready to listen to opinions.

What methods shall we use to help ourselves gain a correct understanding? I shall suggest the following several methods; you comrades can try these and see if they work.

*Exchange of views.* People are liable to be one-sided in their approach to problems. For example, a teacup with a decorative pattern is on the table. The person across the table is able to see the decorative pattern on the cup but not the handle, and the person on this side sees the handle but not the decorative pattern on the cup. Each one sees a different side of the cup, so neither of them has a comprehensive view. If these two persons "exchange" their views, they will then achieve a comprehensive picture. We often say we should seek truth from facts. This means trying to gain a clear idea of the actual situation; to seek truth means to formulate correct policies based on the results of such studies. In fighting a war, if we judge the enemy's situation incorrectly, we shall lose the war. The same is true of a doctor's examination of a patient. He cannot cure the patient and might even kill him if he misdiagnoses the patient's disease. What method shall we use to understand a situation clearly? One method is to have more exchange of opinions. This will gradually change the original one-sided view to a more comprehensive one; the originally unclear object will gradually become clear; the originally divergent opinions on issues will gradually become identical. What should we do if there is no disagreement? I think that we can formulate different positions and consider the problem from different aspects, examining each side and studying various conditions and possibilities. In this way we can achieve a more comprehensive understanding. We make mistakes just because we do not handle affairs objectively. However, it is not the case that

people who make mistakes do not have any facts at their disposal, they just mistake one-sided perceptions for a comprehensive view. When the leading organs formulate policies, they should spend more than 90 per cent of their time in investigation and study. It is sufficient to spend less than 10 per cent of the time for final discussions and decisions.

*Comparison.* We should compare different courses of action in studying problems, formulating policies and making plans. We should not only consider the present, but also the past, and we should also make comparisons with similar policies and plans made in foreign countries. Such all-sided comparisons help to clarify matters and facilitate accurate judgements. More comparisons can only be advantageous for us.

*Reconsideration.* We should not make decisions immediately following the process of making comparisons. We need time to reflect. Decisions on some issues may seem to be correct at the time, but after a while we might discover that they were incorrect, or not completely correct. Therefore, we should not make decisions rashly, and we should allow ample time for reconsideration. It is better to reconsider things after some time has elapsed, and then decide. When I worked with Chairman Mao, he allowed time for reconsideration before making a decision. When you discussed matters with him he said “Oh,” but this does not mean that he agreed with your opinion.

Leading comrades from the provincial Party committee made self-criticisms twice at your meeting. Were their self-criticisms adequate? I have not worked in Shaanxi, so I do not know the situation very well. You should judge their self-criticism. However, I think that you should take a positive attitude towards their self-criticism. It is better to have this self-criticism than not to have any at all. Each of you may offer any of your opinions to the provincial Party committee. However, you should allow the provincial Party committee some time for consideration, and some of the issues can be more thoroughly discussed in the future. At this conference there were many issues raised unexpectedly. We have not had enough time to make a thorough study. Moreover, only half of the leading cadres of the provincial Party committee are here, so they cannot make decisions on many issues.

Some have said that they can air opinions freely only when they are in Beijing, and that they probably could not do so back home. I cannot see that. Why? Because that would not be in keeping with the present trend. Beginning with this conference, people will be free to make criticisms and this door will become more and more open. Comrade Shaoqi<sup>81</sup> said in his report that we should conscientiously carry out democratic centralism and have criticism and self-criticism. This is not something new. Developing democracy and having frequent criticism and self-criticism are all old



traditions in our Party. These traditions have been cast away in recent years, and now we shall restore them. Comrades! If the Communist Party does not conduct criticism and self-criticism and we just go around saying “good day,” I do not think that people will join the revolution; nor will they be willing to become Party members. Of course, I cannot guarantee that all the leading cadres will be open-minded and will accept criticism, but after all, a few people cannot block the way. Some comrades’ response was that they still needed to wait for a while to make up their minds on this issue of openness. We should allow them to do so. Since the inner-Party activities have not been normal in recent years, it is understandable that some people doubt whether we can really develop democracy.

Who should be held responsible for the shortcomings and mistakes in our work in recent years? The Central Committee primarily is to be held responsible. The provincial Party committees, the prefectural Party committees and the county Party committees are responsible as well. We all should draw on our experience and learn from this so as to do our work well in the future.

## **THE CURRENT FINANCIAL AND ECONOMIC SITUATION AND SOME METHODS FOR OVERCOMING DIFFICULTIES**

*February 26, 1962*

Today I shall talk about the present financial and economic situation and certain measures for overcoming difficulties.

At present, we are confronted with financial and economic difficulties. There are advantageous conditions that will help us to overcome the difficulties and improve the situation. However, we should recognize that the present situation is difficult.

We share in the opinion that the difficulties exist, but views among high-ranking cadres are not unanimous with regard to the degree of difficulty or how quickly we should move to overcome these. I think this disagreement is normal and inevitable. We should not try to cover up this disagreement. We have been undergoing great change in recent years and people naturally have different views on the situation. Time and proven facts are needed to attain unanimity in our understanding. I believe that we can reach a common understanding through practical experience. Raising and discussing various opinions is a good thing, not a bad thing; this will help move our understanding towards unanimity. It is very important for high-ranking cadres to achieve a common understanding. After discussions we can still hold various opinions in reserve for reconsideration at a later time. To maintain contrary opinions is allowed.

Now I would like to make five points on our present financial and economic difficulties.

1. Agricultural production has decreased greatly in recent years. In comparison with the output of 1957, grain output in 1961 decreased by more than 40 million tons. Production of cash crops such as cotton and livestock products also decreased a great deal. At present there is not enough grain for

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Speech at a meeting attended by members of leading Party groups from ministries and commissions of the State Council.

food. We imported over 5 million tons of grain last year, and we still need to import 4 million tons of grain this year. Both food and clothing are in short supply. This is a direct result of the decline in agricultural production.

Is the difficulty in agriculture great or small? There are different estimates with regard to this. Recently, I heard some comrades say that in some villages the peasants eat very well, that there are a great many chickens and ducks. This kind of village does exist, but it represents a tiny minority. In most areas of the country peasants do not have enough grain to eat.

Is agriculture recovering quickly or slowly? There are also different estimates on this. In the first half of last year, I anticipated that we could increase grain output by 10 million tons annually over the next several years. In order to understand clearly the conditions affecting production, we asked the Agriculture and Forestry Office of the State Council<sup>48</sup> as well as several other units to organize a group to investigate basic conditions in agricultural production, such as land, farm animals, fertilizers, farm tools, seeds, water conservancy, machinery, and the potential of industry supporting agriculture in the next few years. They will analyze the differences, between present conditions and those in the past to determine which conditions better support production. I cannot speak about these matters in concrete terms today. However, I would say that it would be difficult to claim that present conditions are better than those during the First Five-Year Plan<sup>28</sup> period.

How much did grain output increase on average annually during the period of the First Five-Year Plan? According to *The Handbook of Agricultural Economic Data* published by the Planning Bureau of the Ministry of Agriculture in 1959, in comparison with the previous year, grain output increased by 2.5 million tons in 1953, 3.55 million tons in 1954, 14.35 million tons in 1955, 7.7 million tons in 1956 and 2.5 million tons in 1957. In those five years grain output cumulatively increased by 30.6 million tons; the average annual increase was 6.1 million tons. If the figure for grain output announced for 1957 was inflated, then the average annual increase in production was not that high.

Compared with the period of the First Five-Year Plan, on the one hand, there have been some improvements in water conservancy and machinery, irrigated area has increased, flood control capacity has been strengthened, and there is more irrigation and drainage equipment as well as tractors and other agricultural machinery. Meanwhile, the industrial foundation has become stronger, which makes it possible for industry to provide more support for agriculture. On the other hand, the situation with regard to land, farm animals, fertilizers, farm tools and seeds is worse than before. Take land as an example. In the last four years, capital construction projects for water

conservancy, industry and transportation used about 200 million *mu* of cultivated land. Vegetable growing land was enlarged by 50 million *mu*. Newly cultivated wasteland amounted to only 150 million *mu*. Weighing the increase against the decrease, we see that 100 million *mu* less land was used for growing grain and other crops. It is a serious matter that the 1.6 billion *mu* of cultivated land in the entire country has been reduced by 100 million *mu*. Furthermore, the land we lost in these years was mostly high-yield land, while the increase in cultivated land was mostly in outlying areas such as Heilongjiang, Xinjiang and Inner Mongolia, where the crop yield is relatively low. There are now fewer farm animals and pigs, some of the seeds have degenerated, and crop rotation<sup>112</sup> is in disorder in some areas. Under normal conditions, the growth rate in agricultural production could be faster in the recovery period, but it still depends on actual conditions. On the whole, taking favourable and unfavourable factors into consideration, present conditions are not as favourable as those in the past. This is a reliable judgement. We need one or two years to see how quickly agriculture can recover; we cannot make a judgement at the present time. Practice will show whether or not we can speed up the recovery.

The starting point of our work should be to strive for quick development but to be prepared for slow development. We should endeavour to do everything advantageous to agricultural production. However, development might still be slow even after our best efforts have been made, so we should be prepared for this. Chairman Mao said: "It is absolutely necessary to be prepared for the worst possibility, but this does not mean ignoring the favourable possibilities; on the contrary, such preparedness for the worst is precisely a condition for creating favourable possibilities and turning them into reality."<sup>113</sup> We should adopt agricultural plans with this in mind.

The different measures that can be taken in our financial and economic work are responses to different estimates of the speed of recovery possible for agricultural production, primarily the speed of recovery in grain production. For instance, how much grain can be purchased each year? Should we import grain? How fast will the recovery be for cash crops and for pig-raising? How much can we invest annually in the next few years? How large should the scale of capital construction be? Should the urban population be reduced and how large should it be? The answers depend on the agricultural growth rate, and primarily on grain production. Take capital construction as an example. If we want to increase investment here, in addition to increasing the means of production, we must appropriately increase production of grain and other consumer goods. The speed of recovery in agricultural production directly affects recovery in industrial



production. It is very necessary that all leaders in central ministries and commissions study the agricultural issues. Agriculture is important to the whole country and it is related to the work of every ministry and commission. It should be studied not only by the ministries of agriculture, forestry, and water conservancy, but also by the industrial and transportation ministries, the ministries of finance and commerce, the ministries of culture, education, justice and public security, and the ministry of foreign affairs. Since we are working for revolution and socialism, we must be concerned about such a big issue that directly affects our more than 600 million people and the socialist economic development.

2. The present scale of capital construction has exceeded the national financial and material capacity and is out of balance with the present level of production in industry and agriculture. There are different opinions on this matter. Some people say that the construction scale for these years was appropriate and that the problems are just the result of natural disasters. Other people say that it is agriculture that is hindering us and that otherwise the scale of capital construction would be appropriate. According to their views, industry is hampered by agriculture and is not in itself problematic. I do not agree. On the contrary, it is because the scale of capital construction is too large that neither agriculture nor industry can sustain this burden.

Such a large construction scale cannot be supported, not only at times when agriculture suffers disasters, but even during normal harvest years. Suppose that the grain output in the 1961 grain year<sup>39</sup> did not decrease so much but had been 185 million tons as in a normal harvest year. Could we maintain such a large construction scale? I do not think we could.

We have experienced grain shortages four times since the founding of the People's Republic. Three times were owing to excessive growth in the urban population. The first time was in 1953, the first year of the First Five-Year Plan, at which time there was a sharp increase in the number of workers and staff and, as a result, we had to implement unified state purchase and sale of grain. The second time was in the spring of 1955. We overpurchased grain in 1954 and then shortages appeared; this made "every family talk about grain and about state unified purchase." The Central Committee and Chairman Mao criticized that mistake in our grain work. The third time was during 1956 and 1957. The grain shortage did not come to the surface immediately, but the volume of grain purchased that year could not meet the needs of the state and we had to withdraw about 3 million tons from storage. This shows that at that time it was already difficult for agriculture to support that large a scale of industrial construction. The fourth time was from 1959 to 1961. Production decreased but we purchased more and sold even more

than before.

The great development of industrial construction in the last few years was based on the mistaken estimate that 350 million tons of grain and 3.5 million tons of cotton were produced in 1958. We thought that grain production had already made a breakthrough, that we could greatly develop industry and recruit a large number of workers and staff. Most of the workers and staff were recruited in the second half of 1958. According to our experience, even if we can return to an annual production of 185 million tons of grain in the next few years, this will not be adequate to maintain the present scale of construction.

Neither agriculture nor the present industrial foundation can sustain the burden of the present scale of construction. The present condition in industry is that the number of workers has increased greatly, whereas output is not increasing much, and industrial production is not meeting various needs in terms of quantity, quality, variety and specification. Therefore, capital construction projects will have to be cut down group by group, and factories will have to stockpile semi-finished goods in large amounts.

How did the scale of construction become so overextended in recent years? Other than resulting from our mistaken idea that grain production had achieved a breakthrough in 1958, this was also caused by assuming that steel production could quickly reach 50 or 60 million tons. Since no one had any experience, we overextended capital construction and recruited too many workers. These measures resulted in a scale of construction not suited to the industrial base.

3. An overissuance of currency resulted in inflation. Though the present inflation is different in nature from the runaway inflation experienced before the Kuomintang collapsed, there is no doubt that this inflation is serious. Do we believe this is actually happening? Is it being exaggerated? There might be different views. In recent years we withdrew commercial reserves, raised prices and used very large amounts of gold, silver and foreign exchange reserves; we incurred a foreign trade deficit and we issued 6 to 7 billion yuan in currency in order to make up the financial deficit. These are all symptomatic of inflation. The cause is very simple: on the one hand, too much currency has been issued; on the other hand, agricultural and light industrial production has declined and the amount of commodities held by the state is not great, so the two are out of balance.

What will happen with this inflation? According to present conditions, it cannot be arrested unless we adopt effective measures. We must resolutely stop this tendency towards inflation. Otherwise, we will not be in an advantageous position to effect recovery in industrial and agricultural pro-

duction, market stability, or in general economic development.

4. Since so much money from the cities has flowed to the countryside, some peasants now have a large amount of cash at hand and speculation is increasing. Regarding this issue, there are also various opinions among our high-ranking cadres. The present situation is that prices of both sideline products managed by peasants and prices of materials<sup>33</sup> in the third category, produced both by collectives and by individuals, have increased greatly. In the free markets during the last year or so, peasants sold goods and materials valued at around 1 billion yuan, but which were exchanged for about 3 billion yuan. Currently there are quite a few peasants who hold a considerable quantity of currency and the tendency of urban money to move into the countryside has not been arrested; it will continue for a while. The cause for this is that the state did not have an adequate supply of goods to meet the demand of the cities. If we want communes and peasants to develop agricultural and sideline production, we must allow them to sell their products; nor will it work if we compulsorily overpurchase. Because urban people have to eat, even when prices are highly inflated, some people will buy food even if others do not. In the past, we supplied more than 1.5 million tons of pork to cities each year, but now the amount is less than 0.5 million tons. Might the latter figure quickly change back to the former figure? Impossible. The tendency of urban money moving into the countryside in large quantities cannot be stopped unless the state holds a large quantity of goods and materials and the urban supply is guaranteed.

In this situation in which there is a shortage of goods and materials but much money, quite serious speculation has occurred. We should distinguish between two kinds of people. Peasants fall into one category. They sell pork, eggs and other products they have produced themselves at free markets where the prices are high to earn extra money. Speculators are a different type of person. They make a lot of money through buying and selling. As to numbers, the former represents the majority of the people. But there are indeed quite a few speculators. Comrade [Li] Xiannian<sup>114</sup> just mentioned that one bicycle was priced at 650 yuan, yet people still rushed to purchase it. We must take effective measures to deal with speculators.

A great amount of money moves into the countryside, but the state does not have enough manufactured products to withdraw that currency from circulation. The collective producers sold a certain amount of agricultural and sideline products to the state, but they cannot get manufactured products of equivalent value in return. According to comrades at the Ministry of Commerce, for each 100 yuan of agricultural products sold by peasants, we can provide them with only 60-odd yuan in commodities, or only 70 to 80



yuan if we include haircutting, movies and other services, thus falling short by 20 to 30 yuan. It is very difficult to sustain this situation by political mobilization alone when we cannot provide an equivalent value in manufactured products to the countryside. To a certain extent, the free market is advantageous for promoting production. However, if we fail to recall the money that peasants earn by selling high priced agricultural and sideline products through providing them with manufactured products, there will be more and more currency in peasants' hands and there will be the danger that peasants might not be willing to continue to sell agricultural and sideline products to the state.

5. The standard of living of urban residents has declined. People do not have sufficient food, clothing or other daily necessities. Prices rise, but real wages have decreased considerably. On this point, there might be no disagreement.

I have spoken on five difficulties of which the first two are the basic ones and the other three derive from the first two.

Are there any conditions advantageous for overcoming these difficulties? There certainly are. I would like to point out the following specifically:

1. The general line for socialist construction<sup>115</sup> has already been perfected through practice. Under the leadership of the Party Central Committee and Chairman Mao, we have already formulated some specific policies for realizing the general line. After we carried out the "Twelve Articles"<sup>88</sup> on the improvement of rural work and the "Sixty Articles"<sup>89</sup> on rural people's communes, the motivation of the peasants was noticeably enhanced and rural people's communes were further consolidated. The Central Committee's directive on readjusting industry<sup>116</sup> and the "Seventy Articles"<sup>117</sup> on industrial enterprises have also been put into practice and have produced results. After the Enlarged Working Conference of the Central Committee was convened recently,<sup>111</sup> the leading cadres at and above the county level throughout the Party greatly heightened their ideological consciousness, and work in all fields can now enjoy significant progress.

2. Doubtless, the production of grain, poultry and pigs is recovering. How fast is the recovery? An answer requires further observation. It is still difficult to determine whether the output of cash crops can recover quickly and then even increase. Because there is not enough grain to eat, peasants do not want to grow large amounts of cash crops.

3. The expansion of our industrial and communications capacity in recent years will contribute to economic recovery. This means that our capacity to overcome difficulties is greater than in the past.

4. People will, no doubt, cooperate with Party in our efforts to overcome



difficulties and restore the economy as long as we clearly explain the existing difficulties and our methods for overcoming them. Of course, we cannot say that there will not be any minor disturbances. Generally speaking, however, people will surmount their difficulties with our Party. This point is very important. We should be confident. People clearly understand the historic brave struggle that our Party carried out for dozens of years and the achievements of socialist construction in the more than ten years since the founding of the People's Republic. They probably have complaints about us with regard to some issues, but they still think that, in comparison to the old government, we are better. Comparing the damage caused by our mistakes with our successes, including the revolutionary victory and the achievements of construction, certainly the positive outweighs the negative. With this in mind, people will make a fair judgement. Our present difficulties were, for the most part, produced by mistakes made by good men with good intentions. People will excuse us after we explain clearly, correct our mistakes and perform our work well.

5. The Party's leading cadres have experienced both the positive and the negative. This is also a very important point. All experiences can be applied advantageously in overcoming difficulties and in recovering the economy, and they will assist us in our future work.

The above five points are the favourable conditions that I have reflected on. There may be others. What I have said is not comprehensive, so I offer it as reference material.

In general, we have conditions which are favourable for overcoming our difficulties, but the present difficulties are quite serious. We should point this out to the cadres at various levels, such as those in central ministries, provinces, cities and autonomous regions. It is inevitable as well as permissible to have different understandings with regard to these difficulties. It will be helpful in unifying our understanding and overcoming the difficulties to exchange opinions with each other. Should each central financial and economic department and commission raise these questions and ask cadres at the levels of ministry and department to express their opinions? I think they should do so. Because there actually exist many different opinions on these questions between the ministries and commissions and also within them, it will help to expose shortcomings and improve our work if we conscientiously exchange opinions with each other. The situation of "only expressing 30 per cent of one's opinions" and hesitating to speak out still exists. If we continue to speak in a "bureaucratic tone" with each other without heart-to-heart talks, the revolution will fail. We revolutionaries should speak the truth. We should raise questions, express our opinions, and discuss all this sincerely.

Now I will discuss certain measures for overcoming difficulties.

Regarding the situation mentioned above, what measures should we take to overcome difficulties in financial and economic work? I should like to speak on six points.

First, adopt the ten-year economic plan<sup>118</sup> in two stages. The first stage is a recovery stage and the second stage is a development stage.

Both agriculture and industry require a recovery period. Agricultural recovery requires about three to five years. In these three to five years industry will develop slowly because it must first readjust and recover. How many years are required for the recovery stage? In my opinion, it will require about five years, starting from 1960. I ask you to consider whether it will take five years; it is up to the Central Committee to decide.

Of course, during the recovery stage, some areas might experience development. We all know that during the three-year rehabilitation period<sup>66</sup> after the founding of the People's Republic, the annual production of steel not only recovered to more than 900,000 tons, but also further grew to 1.3 million tons. In general, however, the main aim in the first stage of the ten-year plan should be recovery. The task of this period is to overcome difficulties, restore agriculture and industry and strive for a fundamental turn for the better in the financial and economic situation. The recovery is for development; we cannot develop the economy in the second stage unless the economy has recovered in the first stage.

If we divide the ten-year plan clearly into two stages and specify the first stage as a recovery stage, this will be of benefit in arranging the work of each of the financial and economic departments. If we fail to do so and just ask people to carry out a ten-year plan, developing while cutting down, enlarging the scale while at the same time reducing the number of employees, we will be trapped by our own contradictions and unable to decide what to do. Having divided the process into two stages, we can first lower and then raise the targets for capital construction and certain heavy industrial production, and the overall task will be made clearer.

We must recognize that economic conditions during the recovery stage will be very difficult. As Comrade [Liu] Shaoqi<sup>81</sup> said, the current situation is extraordinary. We must derive ways and means to tide us over this unusual period. There are mainly two methods: one is more unification and centralization; the other is taking each step firmly and steadily. Here unification and centralization signify having the central authorities arrange for overall use of the nation's manpower and financial resources after providing localities and enterprises with the necessary financial and material resources. The degree of this kind of centralization might exceed that at the founding of

the People's Republic because the situation now is more complex.

Second, reduce the urban population and carry out the policy of "better staff and simpler administration."

This measure is of prime importance in overcoming our difficulties. We must do so for the sake of both immediate and long-term interests.

We should reduce the number of workers and office staff who came from the countryside as well as some of those who were already in the cities. We should make proper arrangements for these people. For example, most textile workers come from cities. Presently, many textile factories cannot begin operation, so it is left to us to do more ideological work and clearly explain the facts to workers. It is very difficult to reduce the number of workers—it is easy to ask them to come, but it is difficult to ask them to leave. But if we do not make reductions now, we will incur additional financial deficits, the market will be in chaos and we will be in an even more difficult situation. It is difficult to make reductions now, but it will be more difficult to make reductions in the future, and so I think it is better to make the reductions soon rather than to wait to do this.

It is difficult to mobilize people originally from the countryside to return home. Yet, it will be more difficult to purchase grain in the countryside to supply food for these people in the cities. Last year, we reduced the urban population by more than 10 million. If these people had remained in cities, they would have consumed over 2 million tons of grain. At present, it is impossible to purchase 2 million tons of additional grain from the peasantry. It is difficult even to purchase an additional 500,000 tons or less. It makes things easier if workers return home to the countryside and share grain rations with their families. All of us must make up our minds to reduce the number of workers; otherwise we will be trapped.

Third, take all possible measures to check inflation. Generally speaking, there are four measures that I can think of.

1. Strictly control cash and economize cash expenditures. Banks should control money efficiently; they must not use money where it can be spared. We should resume the banking system which strictly controls cash, and it should be even stricter than it was during the period of the First Five-Year Plan.

2. Increase as much as possible the production of daily necessities. In order to increase the production of daily necessities and withdraw money from circulation, we should transfer some raw and processed materials from heavy industry to light industry and import some raw materials. People have money, so we have to make it possible for them to purchase necessary items. Only this will satisfy them. If we do not do this, and if we just produce



expensive commodities, people will curse us.

3. Introduce a selection of high-price commodities. There should be a variety of high-priced commodities; this will enable us to withdraw more money from circulation. We should not make everything expensive lest we make less money and also get a bad reputation. Once we carry this out, we will certainly be able to withdraw a lot of cash from circulation. Introducing several kinds of high-price commodities is primarily for the purpose of withdrawing the money from circulation that people earn from selling high-price commodities on the free market. Meanwhile, we can also use the money to create a balance between the volume of supplied commodities and the people's purchasing power. Last year we sold high-price commodities mainly in the cities, but now we should sell them mainly in the countryside. We should make high-price commodities available in those places where there is a lot of money. We should employ this strategy first in selected locations, solicit opinions, and then popularize it after we are sure about it. To sell high-price commodities is actually to devalue the currency, so people might complain. However, we will not experience serious problems as long as there is no price rise for the means of subsistence. If we do not employ this method, excess currency cannot be withdrawn; it will flood the market in many places and this will progressively become worse.

4. Firmly resist speculative activities. In this struggle, three strategies should be utilized. The first is economic struggle. If you sell me eggs at the market price, then I sell you candies at the market price; if you sell me high-priced eggs, then I sell you high-priced candies; if you earn extra money, I will find a way to get it back. This means that there should be not only low-price exchanges, but also high-price exchanges; otherwise the method is not comprehensive. The second strategy involves business management. The supply and marketing cooperatives established in the countryside and the consumers' cooperatives in the cities should cooperate to manage the third category of materials and some manufactured products. Prices may become a little higher when these items are managed by supply and marketing cooperatives and consumers' cooperatives. But if we do not allow them to manage these things, the speculators will manage them and the people will lose even more. It is better to allow supply and marketing cooperatives and consumers' cooperatives to make profits than to let the speculators do so. The third strategy involves administrative management. We should control the free market through market management, taxation and regulating the price of transportation. We must plan this carefully. We should experiment in selective places in order to gain experience, and then progressively use these methods more widely.



In 1962 and 1963 we must strive for a balance between revenue and expenditure, between credit receipts and payments, and we must check inflation by every possible means. We should not wait until next year to check inflation.

Fourth, try to ensure a minimum subsistence for urban residents. At the present time, there are three measures that we can gradually adopt.

1. Gradually supply 1.5 kg of soybeans every month to each person living in cities. We can supply less in summer, and less in areas where there are more vegetables. It will require 1.5 million tons of soybeans yearly to supply the 100 million urban residents. Soybean production in our country totalled about 9.5 million tons annually before 1958 and was 6 million tons for the last two years. Therefore, it is possible for us to supply 1.5 million tons for the cities. We should strive to reach this target within two years. We might first do so in the large and medium-sized cities whose population totals about 60 million. By using this method, we can ensure the health of the urban population as well as raise workers' actual wages slightly. If people have soybeans to eat or to convert into bean curd, they will not have to buy, or they can buy less, expensive nonstaple food in the free market. According to calculations, each person requires at least 70 grams of protein daily. Five hundred grams of grain contain about 45 grams of protein, 500 grams of vegetable contain 5 grams, and 50 grams of soybeans contain 20 grams. In cases of shortages of meat and egg products, we can use soybeans to supplement nutrition. This is a relatively reliable method.

2. Supply tens of millions of pairs of nylon socks every year. This is also important. For families with many children, it is a burden to have to darn socks. If we spend US\$4 million to import 1,000 tons of nylon, we can produce 40 million pairs of nylon socks. If we produce socks with nylon soles, we can double the output. Buyers will be content to buy a pair of nylon socks for only several yuan, and the state will be able to withdraw several hundred million yuan from circulation each year. This is beneficial for both the state and the people.

3. Supply high-priced restaurants with 40 to 50 million yuan worth of delicacies from land and sea as well as other high-quality nonstaple food products from all over the country, the selling price of which can be higher than normal. The price of these items should also be high when supplied by guest houses. Thus, we can improve some people's livelihood and we can also withdraw much currency.

These are the three feasible methods that I can think of at present. I cannot yet derive other methods. Even these methods will be difficult to carry out!

Fifth, use all possible resources to increase agricultural production. This is a major measure which is of fundamental importance. In light of the present situation, we need to do a good job in the following three areas:

1. In our effort to increase grain production, we should analyse the means of ensuring an increase in cash crop production. How many kinds of cash crops should we grow? How much land should be used to grow cash crop? How many years will it take to become successful at this? All of this needs to be studied. The present method of rewarding peasants for farming cash crops is like applying “220” mercurochrome. It will encourage peasants to plant more cash crops to some extent, but not to the full. If cash crop production does not recover, the state will not have enough commodities to ensure the supply for cities and for the countryside, and there will be no real exchange of equal value between the state and the peasants. The worker-peasant alliance will not be consolidated. If the state spends one yuan to purchase cotton, after this is spun into cotton yarn and woven into cloth the state can sell it for four yuan. If it is processed into knit-goods, even more currency can be withdrawn. However, in order to encourage peasants to grow cotton, we must ensure that peasants have enough grain to eat. Peasants are now receiving only 17.5 kg of grain for each 50 kg of ginned cotton that they sell to the state. The cotton growers cannot secure enough food, so they have to convert cotton fields to grain fields. If this continues, cotton production cannot be rapidly increased; it will probably continuously decrease instead. If we supply peasants with 1 kg of grain for each 500 grams of ginned cotton sold, peasants will then take the initiative to grow cotton. According to this method, we would have to use 2.5 million tons of grain to purchase 1.25 million tons of cotton. The situation with other cash crops is similar. We have to supply adequate grain rations if we want to increase cash crop production. Currently, the state must import grain to supplement rations and we will need to import even more grain if we want to ensure cash crop production. Also, in the past we considered whether it was better to import grain or to import cotton. Finally we reached the conclusion that we could not obtain the amount of cotton we needed through import and that importing cotton would not be as worthwhile as importing grain. Importing one ton of cotton costs US\$700, while importing one ton of grain costs only \$70. This means that the foreign exchange required to import one ton of cotton could be used to import ten tons of grain, and we could use the ten tons of grain to encourage peasants to grow five tons of additional cotton annually.

2. We should investigate various methods for increasing production in different grain producing areas. In our country, the main areas for commer-

cial grain production are Heilongjiang, Jilin, Inner Mongolia, the Central Shaanxi Plain, the Yangtze River Delta, the Jiangnan Plain, the Dongting Lake area, the Chengdu Basin and the Pearl River Delta. These areas have different characteristics. We should come up with methods for increasing production that are suited to the characteristics of each of these areas. We should supply more chemical fertilizer to the main commercial grain producing areas. According to our calculations, it is more worthwhile to import chemical fertilizer than to import grain. We should import more chemical fertilizer as long as our foreign exchange is adequate.

3. Some steel, iron, and wood should be allocated to produce medium- and small-size farm tools. Industry should support agriculture by supplying more medium- and small-size farm tools, but not tractors. We should calculate how much chemical fertilizer and agricultural machinery we can supply. Feasible plans should be made.

Sixth, planning organs should shift their attention from industry and transportation to the problems of increasing agricultural production and checking inflation. This should be reflected in the state plan.

It seems to me that increasing agricultural production, solving the problems of food and clothing, ensuring market supply and checking inflation are primary. It is also important to produce 7.5 million tons of steel and 250 million tons of coal annually, but this is secondary. Of course, it would be very beneficial to produce this much steel and coal if increased agricultural production and inflation control were not affected. But it will be just as well not to produce so much steel and coal if this hinders other areas.

It will not do just to rely on the State Council Office of Agriculture and Forestry and on the Office of Finance and Trade<sup>24</sup> to increase agricultural production and check inflation. We should rely primarily on the organs for handling comprehensive matters, such as the State Planning Commission and the State Economic Commission to place these issues in a position of primary importance in the state plan. Chairman Mao pointed out long ago that we must make agriculture the basis for the development of the national economy that the plan's priorities should be agriculture first, light industry second, and then heavy industry.<sup>119</sup> Presently we must consider how we can actually follow this directive in our planning and economic work.

These are the main methods for overcoming our present difficulties. What I have said is probably not complete, so please discuss these measures and supplement them.

What is the present financial and economic situation and what are the methods for overcoming the difficulties?—These are important issues with which the whole Party and the people throughout the country are always

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concerned. We must consider these issues carefully and work conscientiously for the next few years. The arrangement of our work should be considered carefully. Once we are sure that some methods are feasible, we should experiment with them and then gradually implement them. To be careful and to tackle problems correctly is preferable to being rash and doing things hastily and in a disorderly fashion. It is useless and harmful if in a difficult period one just worries or adopts just any measures that one thinks might remedy the situation. Of course, once we are sure of some methods, we should go all out to practise them. In the next few years we should strive to overcome difficulties faster, but at the same time we should be prepared for the possibility of slow progress. No doubt, as long as we work hard, we will definitely be able to overcome the difficulties and strive for an early favourable turnabout in the financial and economic situation.



## **TALK AT A MEETING OF THE CENTRAL FINANCIAL AND ECONOMIC GROUP<sup>120</sup>**

*March 7, 1962*

Today I will speak on seven issues.

The first is the issue of long-term planning. I think we do not have to draft a ten-year programme<sup>118</sup> now, but we need to make the five-year plan. Last time I said that the ten-year programme could be adopted in two stages: the first is the recovery stage, and the second is the development stage. We cannot begin to develop the economy before achieving complete recovery. During the recovery stage we can gradually clarify the problems of the development stage. At present we cannot discuss development because we are not clear about the situation. Should we make readjustment our central task while carrying out the “Eight-Character Policy”<sup>121</sup> or should we focus on economic recovery and adjustment? This calls for careful deliberation and should be decided by the Central Committee. However, the leading organs must clearly understand that we should now concentrate mainly on recovery.

Of course, in some areas we will experience development during the recovery stage, while in others we will be experiencing recovery during the development period. Take livestock as an example. Grain is now in short supply, so we must first see to it that the people have enough food to eat. Therefore, we may not be able to recover livestock production to the previous peak level within five years.

The targets for the Third Five-Year Plan<sup>122</sup> should not be discussed at the Working Conference of the Central Committee<sup>123</sup> to be held this July because we are still not clear about the economic situation and it is very difficult to propose relatively realistic targets or even to draft a plan. I suggest that at the Central Working Conference to be held this July the participants should mainly discuss the financial and economic situation, bring up problems, clarify issues, discuss policies and study measures to be adopted. We must conscientiously discuss the situation and the measures we should take so as to unify our thinking.

How long will it really take to bring about a complete recovery of agriculture? Currently, it is hard to estimate. We must wait this year and next year to see how things develop. Therefore, we cannot set targets for the Third Five-Year Plan this July or even next year. Our First Five-Year Plan<sup>28</sup> began in 1953. We talked with the Soviet Communist Party and government as well as with Stalin before preparing this plan. The State Planning Commission which was established at the end of 1952 repeatedly studied the Draft First Five-Year Plan. The plan was formulated in the spring of 1955. It was adopted by the National Party Conference first and then by the National People's Congress in July prior to being promulgated. It took us more than three years to formulate the First Five-Year Plan. We will be facing an even more complex situation in formulating the Third Five-Year Plan. I do not think that we should rush to set targets before we are clear about the problems to be solved. We can put forward an outline for next year's annual plan at the meeting to be held this July so that we will have a general idea.

The second issue is that the annual plan for this year will require a great deal of readjustment and rearrangement. This is very necessary. We should not change the plan in the subsequent three quarters once it has been decided. We should not, as in the past, "reformulate the annual plan as the year goes by," which really makes things difficult for comrades in the State Planning Commission. We used to recalculate in order to balance the figures. However, the figures were not accurate, so we had to concentrate on accounting and did not have time to study the situation and policies. We will not do this in the years to come. After the annual plan for this year is readjusted, the State Economic Commission will take charge of making any changes during implementation.

Readjusting the present plan means slowing down somewhat the development of industrial production and capital construction and shifting the focus of our work to agriculture and the market. In distributing materials we should first meet the needs of agricultural production. Of course, this must also be done in response to actual conditions. For example, it is impossible to supply the more than 5 million cubic metres of lumber needed in the countryside. In any case, we must meet the needs of agriculture as much as possible. In distributing materials we should also meet the demands of the market, mainly the demand for the production of manufactured goods for daily use. We should try to provide more, if possible. We can then consider other needs. In carrying out the annual plan, we should first make proper arrangements for agriculture and the market.

Staple and nonstaple foods for urban residents are currently in short supply, so people's health is being adversely affected. Shouldn't we allocate

some steel products for manufacture of motorized sailboats and add to our fishing equipment so that the aquatic products departments can catch more fish at sea? If we can increase the supply of fish by 150,000 tons annually, each of the more than 60 million people in the large and medium-size cities can get 250 grams of fish per month. (Comrade Zhou Enlai remarked, “Chen Yun’s proposal made earlier that we supply 50 grams of soybeans to each person every day is very good. However, human nutrition requires both plant protein and animal protein. Perhaps Buddhist monks and nuns who sit in meditation all day require only plant protein. That will not suffice for people like us, and certainly not for people who do more physical labour than we do. We need animal protein as well as plant protein.”) In addition, we will open some high class restaurants. Those who can afford it can eat there. Thus the masses will not complain so much about preferential treatment for cadres. At present there are quite a few people who resent preferential treatment for cadres. This is understandable. The target and measures for increasing fish output should be listed in the annual plan beginning this year. This problem can be solved only by proper planning and preparation.

In addition to supplying each of the more than 60 million urban residents in large and medium-size cities with 250 grams of fish per month, is it possible to increase the supply of meat by 250 grams per person per month by the end of next year? According to Comrade Yao Yilin,<sup>83</sup> if each pig yields 30 kg of pork, the 12 million pigs we plan to purchase this year will supply more than 350 million kg. Except for exports and other needs that must be met, each person will have 3 kg of meat annually. We should ensure an adequate purchase of pigs, and we should ensure fair distribution after purchases are made. One way of doing this would be to cut down on exports. In this way a family of five members can have 2.5 kg of meat and fish each month. At present, this is a major national issue. If 60 million people are in poor health and we do not find ways to solve this problem, people will complain. People want to know whether the Communist Party is really concerned about their well-being and can meet their everyday needs. This is a political issue.

Both agriculture and the market are of vital importance to the livelihood of our more than 500 million peasants and more than 100 million urban residents. Solving the problems here constitutes an important state policy. It is absolutely necessary for other sectors of the economy to “sacrifice” a little bit for agriculture and for the market. In the plan for this year, especially concerning the distribution of materials, we should first meet the needs of agriculture and the market, and then meet those of industry. In industry,

priority should be given to maintenance and the production of complete manufacturing lines so that we can maintain simple production. We will consider capital construction after we have met the year's needs for production. We will engage in capital construction with surplus resources. We should do so this year as well as in the future so that people's standard of living will improve year by year.

Comrades, we spent dozens of years in achieving success in the revolution; we must not allow our revolutionary achievements to slip from our hands. We are now facing the problem of how to consolidate and develop our revolutionary achievements. The key is to properly arrange for the livelihood of our more than 600 million people and to work for their well-being.

I think this year's annual plan requires quite a large readjustment. We are going to slash the targets for heavy industry and capital construction. We should unswervingly cut down and should not refuse to slash the targets. We cannot hesitate anymore. (Comrade Zhou Enlai interjected, "We could write an antithetical couplet. The first line is: first solve the problem of food, clothing, and articles for daily use; the second line is: develop the economy in the order of agriculture, light industry, and heavy industry; the words on the horizontal scroll are: overall balance.")

The third issue is an overall balance. There are many disagreements on this issue which relate to conceptions of active balance and passive balance. There are different understandings of what active balance and passive balance mean. I think that first we should clarify two issues. When should we try to achieve overall balance, and how should we balance the targets?

We will first discuss when we should try to achieve overall balance. Some comrades think that we should not do this now because conditions are not ripe. They hold that we should put forward a few long-range targets, then make all the calculations and formulate a construction plan. A leading comrade of the Ministry of Metallurgical Industry originally planned to produce 25 to 30 million tons of steel within seven years. I asked him if we could produce a variety of products within that period, and he answered that we could not. In my view, from now on, we should try to achieve overall balance and we need an overall balance in the annual plan for this year. We should not wait until after we have produced a certain amount of steel to attain overall balance. We should make careful calculations based on the present level of overall balance to see what long-range plan we can adopt. We absolutely cannot do the opposite. Overall balance means doing things proportionately, and to maintain appropriate proportions is to be balanced. One department cannot be separated from other departments. If a machine



lacks parts, it won't work. Proportionate development conforms with objective laws; nothing will be accomplished without proportion. According to domestic and foreign experience, it will take about 50,000 tons of nonferrous metals to produce 1 million tons of steel. There must be a certain proportion of copper, aluminum, lead, and zinc. The steel cannot be produced without certain kinds of metals, or with an insufficient amount of these metals. In the same way, if we pay no attention to an overall balance in our economic work, we will not make any progress.

Now I will speak on how we should balance the targets. There are two ways of doing so: balance the targets either in light of the amount of products in short supply or in light of products in excess supply. In recent years we tried to do the latter. The fundamental lesson from this was that we could not achieve balance. As a result, the construction period for projects was prolonged and large quantities of semifinished products were overstocked, which caused serious waste. We have had sufficient experience in this respect in recent years. Only by balancing targets in view of the amount of products in short supply can we achieve true overall balance. This means balancing supply and demand for items that can be produced within the year and drawing on necessary reserves and imports. For example, we need a certain amount of nonferrous metals to produce a certain amount of steel. First, we need to calculate carefully how much nonferrous metals can be produced within that year, how much should be taken out of reserve, and how much should be imported. We can then balance production on this basis and fix the production targets for steel. A leading comrade of the Ministry of Metallurgical Industry told me that they were planning to produce 25 million tons of steel and that if there were not enough nonferrous metals, they could import these from foreign countries. He tried to secure my approval. I made a calculation for him; calculated at 5 per cent, an annual increase of 3 million tons of steel would require 150,000 tons of nonferrous metals. Since the founding of the People's Republic, the largest quantity of nonferrous metals imported in a year was 130,000 tons. Suppose we import the nonferrous metals that cannot be produced in sufficient quantities domestically in order to increase steel output by 3 million tons next year. Then we would have to import even more nonferrous metals the year after next in order to increase that year's steel output by several million tons. I think it would be difficult to buy that amount of nonferrous metals even if we had enough foreign exchange. Therefore, we must balance our targets in light of the amount of products in short supply. In this way we can coordinate production and produce complete sets of products and we can put them to good use; otherwise we just produce a pile of semifinished goods, and this is very wasteful.

What about the products in excess supply after we have balanced and

set targets through taking into account the amount of the products in short supply? We could continue to produce these. Take the production capability of the First Ministry of Machine-Building Industry<sup>68</sup> as an example. It produces a large number of products in excess of demand. It also produces a large number of products in insufficient quantity to meet the demand. As regards machines which cannot be used this year but can be used next year or the year after, we can continue production and store them temporarily. Yet, we should also consider whether it might be better to use those raw materials to produce items that are in greater demand. In other words, we can choose to stop producing what is not needed or what is not badly needed, and instead produce goods which are more urgently needed.

In general, the targets we set must be tailored to actual possibilities and also allow some leeway. We should not worry about the targets being a little low as long as we have an overall balance. Though a target may be somewhat low, this is much better than an unrealistically high target, and it will allow us to take the initiative and avoid ending up in a passive position. For example, we should set the production target for coal according to our actual capacity. There will be no loss even if it is set somewhat lower than actual capacity. Coal will still exist in the People's Republic of China; we can always produce more later. In setting long-term targets, we should allow more leeway. We should make an overall plan based on overall balance instead of considering steel production alone.

Recently I read the statistics on steel output in the United States, Britain, Germany, Japan, the Soviet Union, and in other countries over the last 90 years. I discovered that it took a very long time for these countries to produce ten million tons of steel annually. The United States, Britain, Germany, Japan and other countries became imperialist countries when their annual steel output reached five to ten million tons. The Soviet Union became a strong industrial country on the basis of a similar production level. Generally speaking, by the time these countries could produce five to ten million tons of steel annually, they already had various types of industries, which laid an industrial foundation. When Japan launched the July 7th Incident,<sup>124</sup> its steel output was less than seven million tons. Historical experience teaches that from now on we must strive to turn out a complete variety of products of good quality within a fixed amount of time in order to meet the needs of various industries. We will be able to make rapid progress after we have laid such a foundation.

Our appetites are bigger these years. An annual investment of more than 10 billion yuan seems like nothing. From the time when Zhang Zhidong<sup>125</sup> established industries to the time of the founding of the People's Republic

of China, the total fixed assets of China's privately owned industrial enterprises were only around 2.2 billion yuan. Now, in only one year, we invest 10 billion yuan. If we arrange investment properly, we can accomplish things in one year which would have taken dozens of years in the past. Isn't this scale large enough? We need 2 million tons of steel products, requiring an investment of 10 billion yuan. At present we are annually producing 7 to 8 million tons of steel products; 2 million tons can be used for capital construction, with which much can be accomplished. The other 5 to 6 million tons of steel products can be used for other purposes.

The fourth issue is the system for managing materials. In general, the management of materials should be more centralized than it was during the period of the First Five-Year Plan. At present, materials are controlled separately by the state, the various ministries, and the local governments. From now on, ministries should not manage so many products. If we let the Ministry of Metallurgical Industry control steel products, "it will steal what is entrusted to its care," so the state should exercise centralized management. At present more than half the time and energy at the State Economic Commission is spent distributing and allocating goods and materials. The process of production itself is a process involving the allocation and distribution of goods and materials. If one is not empowered to allocate and distribute goods and materials, he cannot command production. We should call a meeting to be attended by comrades in charge of goods and materials to review experiences and lessons, including lessons concerning too much centralization and too much decentralization, and then draw up a set of methods for sound management of goods and materials.

The fifth issue is to study the general situation in agriculture. The State Planning Commission, the State Economic Commission, and the Office of Agriculture<sup>126</sup> should carefully study and investigate actual conditions and then set production targets on this basis.

The sixth issue is that the State Planning Commission should mainly concentrate on agricultural production and work to stabilize the market. The State Planning Commission has a tradition, that is, it has paid more attention to industry and capital construction and less to agriculture, finance, trade and so on. There is a historical reason for this. During the recovery period,<sup>66</sup> the Financial and Economic Commission<sup>23</sup> exercised unified management over finance and economy. After establishment of the State Planning Commission, agriculture, finance and trade have been separately managed by the Office of Agriculture and the Office of Finance and Trade.<sup>127</sup>

I concentrated mainly on three areas when I worked in the Financial and Economic Commission. The first was the socialist transformation of capital-



ist industry and commerce, the handicrafts and peddlery. When Chairman Mao read materials on the opinions of the capitalists, he asked me to study them. Each time capitalists came to attend meetings in Beijing, we carefully studied the issues they raised. It is really a good thing to have an opponent. It forces us to think about the issues thoroughly. The second area was investment in capital construction. My method for doing this was to cut down. I cut down to a level that could be sustained by our national capacity in finance and resources, especially in agricultural production. The third area was the labour force. Everyone else wanted to increase recruitment every year, but I controlled it strictly. It was easy to employ people, but very difficult to fire them. Once they were employed, we had to pay them and supply food, clothing, and articles for daily use. Every time we increased the number of workers and staff, I had to recalculate. If there were not enough goods and materials, I did not allow more recruitment. As long as capital construction investment and the labour force were controlled, the plan was generally under control and there were not any serious problems. At that time, I did not do much to manage agriculture. It was only later that I was in charge of unified state purchase and sale of grain. Comrade Huang Jing<sup>128</sup> once proposed that, since bank credit funds were plentiful and there was a large amount of working capital in the commercial departments, why not take some money from these two sources to promote capital construction. He did not understand that if we withdrew the necessary credit funds and working capital in order to promote capital construction, material supplies would become a problem. This would not work and was dangerous.

We used to calculate every year how much purchasing power and how much commodity supply we had. We wanted commodity supply to exceed purchasing power, i.e., there should be several hundred yuan worth of commodities for each 100 yuan of purchasing power. Otherwise, there would be a shortage on the market, because the supply of some commodities would not meet the demand of consumers. Only when the volume of commodity supply is greater than purchasing power can consumers have a choice. An unfavourable balance between commodity supply and purchasing power will definitely cause instability in the market and even inflation.

The seventh issue concerns encouraging people to air their views. Actually there are different opinions on the current situation, policies and measures, and on the focus of our work. Each ministry, commission and unit should encourage opposing parties to air their views. It is a good thing to have a variety of opinions in our Party and in government departments. This forces us to consider issues all-sidedly, avoid one-sidedness, and so we will make fewer mistakes.



## WE SHOULD RESEARCH CONTEMPORARY CAPITALISM

*June 7, 1973*

Chen Yun: I work one day and rest the next. Today is my rest day. Shall we talk for half an hour?

Chen Xiyu<sup>129</sup>: All right!

Chen Yun: I want to learn about international finance and currency. I would like you to gather information to answer the following questions:

1. How much currency did the United States, Japan, Great Britain, West Germany and France issue from 1969 to 1973? What were their foreign exchange reserves as well as gold reserves?

2. What is the current global annual gold output and the current output of each of the main gold-producing countries?

3. Which countries and regions hold 80 billion Eurodollars?

4. Which industries other than steel and iron are indicators of economic prosperity, recession or crisis?

What were the respective investments in the steel and iron and machine-building industries and in other capital construction projects in the United States, Japan, Great Britain, West Germany and France from 1969 to 1973?

5. How did the United States, Japan, Great Britain, West Germany and France tide over economic crises? How long were the intervals of these crises?

6. Other than those arising out of political issues, what are the main economic conflicts the United States has with Great Britain, Japan, West Germany and France?

7. What measures do you think will be taken to solve the conflicts in trade and currency between the United States on the one hand and Japan, Great Britain, France and West Germany on the other?

French Minister of Finance D'Estaing advocates basing currency on gold. Could you work out the ratio of the world's total amount of currency

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Talk after listening to a work report of the People's Bank of China. At that time, Comrade Chen Yun was studying foreign trade issues, as entrusted by Comrade Zhou Enlai.

in circulation to the total amount of the world's stored gold?

8. What will the deficit of the United States be in 1973? What will be its expenditures relating to transfer payments, stationing troops, investment, tourism and trade?

9. What are the short- and long-range predictions for world economy, currency and finance?

10. I would like you to evaluate the advantages and disadvantages of the overdraft services provided by foreign banks.

These are the things I wish to learn about. I do not know whether you will have any difficulty in collecting this material within seven to ten days. If this is too rushed, you can take longer.

Chen Xiyu: We shall start working on it.

Chen Yun: Does your bank still have a research institute?

Qiao Peixin<sup>130</sup>: There was a Finance Research Institute before the "cultural revolution," which was later dissolved. At present, we have a research office with a dozen staff members who mainly research international finance. Foreign trade departments conduct more research than the bank does.

Chen Yun: Foreign trade departments mainly conduct research on commodity prices. The bank should undertake overall economic research. Do you have staff who are fluent in foreign languages?

Qiao Peixin: Yes, we do.

Chen Yun: You should restore the research institute. We used to conduct 75 per cent of our foreign trade with the Soviet Union and eastern European countries and 25 per cent with capitalist countries. Now, 75 per cent of our foreign trade is with capitalist countries and 25 per cent is with the Soviet Union and eastern European countries. All of the changes in supply and demand and in various currencies are manifested in foreign trade. So we need to have a research institute. Can we be certain that we shall continue to have 75 per cent of our foreign trade with capitalist countries and 25 per cent with the Soviet Union and eastern European countries? I think so. Therefore, we should research capitalism conscientiously.

Chen Xiyu: We will restore the Finance Research Institute.

Chen Yun: After it has been restored, it should study such materials as State of Union Message delivered by Nixon<sup>131</sup>. We used to have no *Reference Materials* but only *Reference News*. However, I read such materials and circle the important parts. We should read and research speeches delivered by Connally<sup>132</sup>, Shultz<sup>133</sup> and D'Estaing. Lenin once said that during the era of communism, public lavatories would be built with gold. I think we are rather far away from that era. If we do not study capitalism, we shall suffer losses

and will not be able to gain the position we should hold in the world market.

Do you still remember, Comrade Qiao Peixin, that when we were in Yan'an we studied the relationship between Border Region currency<sup>134</sup> and Kuomintang currency?<sup>135</sup> You were then chief of the Currency Issuance Section, and Comrade Cui Ping was director of the Conversion Office. We called meetings every week to study the price and transportation fee for salt. Presently, conditions are much better than what we had then. We now have commercial offices abroad.

Chen Xiyu: Our bank also has overseas branches.

Chen Yun: I know that it is rushing you a little bit to have you prepare so much material in seven to ten days. Politics is superstructure, but economy is the foundation. Comrade Li Yumin,<sup>136</sup> what are you in charge of?

Li Yumin: I am in charge of foreign funds.

Chen Yun: How old are you?

Li Yumin: Forty-three.

Chen Yun: I am glad to hear that. That is the right age to engage in work when one is in his thirties and forties. How old are you, Comrade Qiao Peixin?

Qiao Peixin: Sixty-one.

Chen Yun: You are not so young any more, but you can go on living for more than twenty years, while I cannot. In any case, we are now bound to deal with capitalism.

Chen Xiyu: We want to report on the utilization of foreign investment.

Chen Yun: All right!

Qiao Peixin: At present, we can borrow one billion US dollars or even more, but here we meet with two questions. One is whether borrowing foreign funds conforms to the principle of self-reliance advocated by Chairman Mao, the Party's line and the policy of incurring neither domestic debts nor foreign debts. The other is whether we can amend some of the relevant domestic regulations. We cannot work unless we can answer these questions.

Chen Yun: What you have said involves two issues. One is an issue of right and wrong; the other is an issue about rules and regulations. I think that first of all you should clarify whether borrowing foreign funds is a good thing or not. As long as it is a good thing, you can develop a method, which should be discussed by everyone. In introducing a new method, we must make certain distinctions. For example, we should not set the implementation of the principle of self-reliance against the use of capitalist credit. If things are handled properly and rationally, there will be no conflict with domestic policies. In short, if it is a good thing, there will be good reason to do it. We must clarify our general principles. All things have a reason for existence,

and whether they are right or wrong is another issue. Our work should not be restricted by old conventions. Of course, we are likely to make mistakes. But who is free from faults? Generally speaking, price increases in the Guangzhou Export Commodities Fair this year were justified, but some prices have been raised excessively. We should lower those unduly raised prices. In the past we did not do 75 per cent of our foreign trade with capitalist countries. But things have changed. Some comrades have not perceived this, so we must explain it to them.

Qiao Peixin: At present, foreign banks come to China for two things. One is to provide information and the other is to grant loans.

Chen Yun: They are doing what banks and money houses used to do in Shanghai and Tianjin. Where there are thriving businesses, they come to earn profits. This concerns what Marx called the average rate of profit. If you have good credit, banks will come to grant loans, but when your credit drops, they will press for payment of debts. In a word, the situation has changed, but some comrades have not yet understood this. Sometimes it is hard to do what is beneficial. The relevant rules and regulations should be modified. The reason for this is that 75 per cent of our foreign trade is oriented to capitalist countries. Banks should do a good job in this respect.



## PROBLEMS IN DOING IMPORT WORK THROUGH COMMODITY EXCHANGES

*October 10, 1973*

In April this year, the China National Cereals, Oils and Foodstuffs Import and Export Corporation assigned Ng Fung Hong Ltd. under the China Resources Company in Hong Kong to purchase 470,000 tons of raw sugar as soon as possible within the year. At that time, granulated sugar was in short supply on the international market, so the price was rising. Ng Fung Hong Ltd. believed that if we immediately purchased a large amount of sugar, that would inevitably force the price up. Thus, we might not get the granulated sugar in time even at a high price. In order to accomplish the purchase, Ng Fung Hong Ltd. entrusted Hong Kong merchants to buy 260,000 tons of granulated sugar in futures<sup>137</sup> at an average price of about 82 per ton at the London and New York exchanges. The company immediately bought more than 410,000 tons at an average price of about 89 per ton from Brazil, Australia, London, Thailand, Dominica and Argentina. Beginning on May 20, it became known in the market that China had bought large quantities of granulated sugar, causing the market prices for granulated sugar to rise by a big margin in New York and London. After that, Australia and Brazil confirmed successively that we had purchased their sugar, thus further increasing market prices. By May 22, the price of sugar had reached 105 per ton. As we had finished the task of spot purchasing granulated sugar, we sold the futures between May 22 and June 5. After deducting the 600,000 we paid the middlemen, Ng Fung Hong Ltd. had made a profit of 2.4 million.

After discussions on the above method of work, the leading nucleus of the Ministry of Foreign Economic Relations and Trade held that, although we might encounter some risks doing business through commodity exchanges, we can have a try at this under certain conditions.

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Report drafted on behalf of the Ministry of Foreign Economic Relations and Trade and submitted to the State Council.

1. At present, trade between China and capitalist countries accounts for 75 per cent of our total trade. In the capitalist international market, commodity prices are very sensitive to both monetary crises and to changes in the supply-demand situation. Foreign merchants hold that when China intends to purchase commodities, it is interested only in accomplishing the tasks assigned by the government, and that even if the price were to be raised very high, China would still buy. Therefore, the foreign merchants often seize the opportunity to force up prices. We should pay attention to that.

2. Commodity exchanges in the international market are places not only for speculation but also for transactions in large quantities of commodities. This shows that capitalist commodity exchanges have a dual nature. Currently we are mainly depending on the middlemen to do business for us. Nevertheless, no matter which method we adopt, the prices of most commodities for import and export will be determined in accordance with the prices at commodity exchanges. In the past, we never used commodity exchanges in this way, and even this time we used them through private merchants. Instead of avoiding this method in our work, we should study and make use of commodity exchanges.

3. This time we used commodity exchanges not because we wanted to speculate and secure the profit of 2.4 million, and neither shall we engage in speculation in the future. Our use of commodity exchanges this time represents a roundabout and protective measure for avoiding or reducing losses.

4. We shall conscientiously study commodity exchanges in the next couple of years. We know that we might experience both profits and losses while doing business through commodity exchanges, but we must make sure that the profits outweigh the losses. We shall never speculate in anything. Instead, we shall only buy futures in goods and materials we want to import through commodity exchanges; that is to say, we shall only buy the goods and materials that we really need. Therefore, it was an appropriate measure we took when buying sugar this time, but we should not do so too often. When we intend to take this measure, we should solicit instructions and approval and submit reports beforehand. Every time we finish our work through commodity exchanges, we should review our experience.

5. We must strictly observe Party discipline and avoid wasting even a single cent. For example, we made a profit of 2.4 million this time. If we need to spend 100 yuan on a dinner in honour of the middlemen after paying them commission, as in accordance with commercial practices, we should not spend even one yuan more. We should seriously educate our cadres and Party members in the need to avoid waste.

## **MAKING USE OF CHINA'S RICH LABOUR FORCE TO PRODUCE FINISHED PRODUCTS FOR EXPORT**

*October 12, 1973*

Some comrades hold that if we use imported cotton to process cotton cloth for export, this means that we are being dependent on foreign countries instead of being self-reliant. This point of view is not correct. Of course, we must insist on being self-reliant. But in this instance, we are not presently producing sufficient domestic cotton. Last year, our yield of cotton was 1.95 billion kg. This year we purchased 800 million kg of cotton from abroad. It might take a very long time before we can be more than sufficient in domestic cotton and export cotton cloth which has been processed entirely with our own cotton. In the meantime, we should import cotton and process it into cotton cloth for export. Otherwise, we shall be looked upon as fools. The United States is a big cotton-producing country, but it does not spend a great deal of energy on cotton cloth export. The reason for this is that the average wage of American workers is as high as US\$ 3.8 per man-hour. Britain became economically prosperous on the basis of its textile industry. The “foreign cloth” we used in the past came originally from Britain. Besides, “yard” is a British unit of measurement. But now the situation has changed. This year a Chinese automobile delegation visited Britain. The delegation found that many textile mills in Lancashire had been changed into factories where trucks and other products are manufactured. As the average wage of British workers is US\$ 1.6 per man-hour, the textile industry would not bring much profit. Japan used to export large quantities of cotton cloth. When I received a Japanese delegation in the 1950s, they asked me whether or not we exported a large amount of cotton cloth. I told them that we did not. At that time, they feared that we would be exporting much more cotton cloth and thus squeeze them out of the market. But rather, nowadays Japan is increasing its import of cotton cloth year by year. Some say that the

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Excerpt from a talk with leading comrades of the Ministry of Foreign Economic Relations and Trade.

average wage of Japanese workers is US\$ 1.9 per man-hour, but others say it is 90 cents per man-hour. Our workers' wages are much lower than that. Although India, Pakistan and Egypt all manufacture cotton cloth, their textile industries are not so advanced as ours, nor do they enjoy such a long history as ours. So it is beneficial for us to export cotton cloth. Some people fear that the foreign market is an unreliable source of cotton. In fact, the supply of domestic cotton which we plan to use is not always reliable, either. If we can purchase cotton and export the processed cotton cloth, we shall make a profit; but if we cannot produce cotton, the result will be only that we shall not make the profit. We should expect that we will not always be able to depend on foreign cotton. If we cannot purchase foreign cotton within a particular year during a period of three to five years, shall we continue to engage in this work? I think the answer is in the affirmative. We should continue to do so for a long time, because this is a sound endeavour. With such a rich labour force, we can earn foreign exchange income for our country. In the final analysis, the purpose of doing so is to accelerate the industrial development of our country. In a word, we should lose no time in ordering cotton. If it is difficult to buy cotton on the spot market we can buy the futures. We should set about the job immediately. With cotton in hand, we shall feel relieved.

We are ordering a set of steel rolling equipment priced at over US\$ 300 million from abroad, and we should import the accessories at the same time. After the equipment goes into operation, we will be able to manufacture 3 million tons of steel plate a year. In two years, we will have produced 6 million tons of steel plate. If we lack spare parts which we cannot produce ourselves, production will be postponed. If we lose one year of production, we shall lose 3 million tons of steel plate. This would not be worthwhile. Some people may criticize us, saying that we are worshippers of foreign products, but I do not think there is any harm in serving as this kind of worshipper.

We must take the whole situation into consideration. With such a large population, we should engage in large-scale processing and export. For example, we should import chemical fertilizer and the related equipment so as to increase grain production and the export of rice and meat. This idea is similar to the one on importing cotton and then processing the cotton into cotton cloth for export. Since we are utilizing our rich domestic labour force to produce finished products for export, the logic in doing so can easily be understood.



## PROBLEMS CONCERNING EXPORT OF HANDICRAFTS

*December 4, 1973*

I would like to present a few views on the export of handicrafts.

1. The total volume of business at the Guangzhou Commodities Fair<sup>138</sup> was fairly high this autumn, which is an encouraging sign. The prices of some commodities rose or remained unchanged, while a small number of goods such as special handicrafts decreased in price. The causes for the decreasing prices are both domestic and international. On our own part, we had raised the prices of these commodities too high to sell well, which forced us to cut the prices later. This was unavoidable, but we should try not to repeat this.

2. Raising the export commodity prices at the Guangzhou Commodities Fair held last autumn and this spring was justifiable because of the monetary crisis, the depreciation of bank notes and the skyrocketing prices on the international market. Lack of experience resulted in raising the prices of some goods too much. The above-mentioned goods, mainly special handicrafts, are valued about US\$ 10 million, which is not a particularly large figure.

3. Export of handicrafts must be guaranteed. Why? There are three reasons for this. First, most varieties of handicrafts are in good supply, and what needs to be done is to open up more markets. Second, export of these products is closely related to the people's livelihood because a fairly large quantity of these exports are manufactured by peasants engaging in sideline production as well as by urban residents. Third, the value of these handicrafts, for instance, a straw basket which is valued only several jiao, though insignificant when considered individually, is large when considered collectively. Therefore, we should not underestimate the production of small commodities.

4. Issues relating to the organization of handicrafts production. First expansion in production of handicrafts should be geared to the demands of

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Talk given on hearing reports by leading members of China National Arts and Crafts Import and Export Corporation.

the international market, but, of course, we must make an effort to promote sales. Second, we should make use of locally obtainable materials and at the same time maintain the old and traditional production bases. Third, the Ministry of Foreign Trade should plan adjustments in the varieties and quantities of handicrafts to be produced in various areas, and poor areas should be given priority. At first, purchasing prices should not be set too high with regard to the different levels of income in various areas so as to avoid the tendency to emphasize sideline production to the neglect of agriculture. We take agriculture as our foundation; in the development of a diversified economy we should not deviate from this premise.

5. We should maintain and expand our markets in Hong Kong, Macao, Japan, Xin-Ma<sup>139</sup> and spare no efforts to open markets in Western Europe, North America, Oceania and in other areas.

6. Emphasis should be placed on the production of low- and medium-grade products as well as inexpensive ephemeral articles for daily use. Customers purchasing these products are wage earners. We should increase the volume of business by selling more. Being different from daily articles such as clothes and socks, expensive handicrafts can only be sold in limited quantity because only the rich can afford them.

7. With regard to goods whose prices have been raised too much, we should attempt to come up with some methods to solve this problem, i.e., cutting prices or keeping the prices unchanged for a period of time. As more markets are opened, middlemen should be given preferential treatment. Subsidies should be allotted for some goods when necessary. There is always the possibility that some goods will not sell, even when prices are cut.

8. After the market has expanded we should adopt flexible trading methods. As complementary activities to the Guangzhou Commodities Fair, we may hold small trade fairs and sales exhibitions. Another way to encourage trade is to allow salesmen and middlemen to make profits from their daily business. Moreover, we should consider whether we should give salesmen and middlemen rights of exclusive sale to certain countries or for certain types of products and whether we should allow trustworthy salesmen and middlemen to pay us in installments. In doing so, we run some risks. And we should not refrain from doing business just because we have suffered some losses.

9. We should raise prices appropriately and take into account situations that may result from the rising prices of handicrafts. We should not make handicrafts too expensive so as to avoid the need to cut prices by a big margin later. Why? The Ministry of Foreign Trade does not engage in retailing, it sells handicrafts through middlemen. If the prices are too low, the middlemen

will not be able to profit from their work. Even if prices are not raised as high as they should be at one commodities fair, this does not matter. We can always raise the prices at ordinary times or at the next commodities fair.

10. Emphasis should be placed on quality assurance of products. However, we know that it takes a period of time for the new production areas to improve the quality of their products. We must be prepared to sell at a loss for a while with the aim of finding markets and increasing output. Brunner Mond & Company Ltd.<sup>140</sup> distributed chemical fertilizers to users free of charge at the beginning; after they created markets, they began charging for these. Products which do not sell well abroad can be sold domestically.

11. In trying to resolve the conflicts between production and commerce, we must continue to assist production and take our overall interests into consideration. It is acceptable to lose some money in foreign trade because we are acquiring foreign exchange. We should view this issue from a wide perspective; the money we earn goes to our peasants, not to Nixon.<sup>131</sup>

## ON TRADE WITH HONG KONG AND MACAO

*August 14, 1974*

Today I would like to talk about our trade with Hong Kong and Macao.

Hong Kong and Macao are where we earn most of the foreign exchange we need to import complete sets of equipment, apparatus and instruments.

There are both favourable and unfavourable conditions in trading with Hong Kong and Macao. Our favourable condition is that our food and other traditional export products comprise a major market share there, but there is also the possibility that we might be squeezed out of the market. The disadvantage is that Hong Kong and Macao are free ports with sharp competition where our competitors can sell at lower-than-cost prices, especially when the capitalist countries are experiencing economic crises. Many comrades have not recognized this disadvantage.

Efforts must be made to maintain the existing food export market. Each province should give priority to export. To this end, we should build and enlarge our production bases.

Commodity prices should be competitive. Great efforts should be made to promote the sale of those goods from which we can earn a lot of foreign exchange. However, in our efforts to earn more foreign exchange, we should never give up the chance to sell the goods which bring in less foreign exchange.

Except for special cases, we must never concede to foreign businessmen in competition with us. We should conduct an overall study in order to define these special cases.

Preferential treatment should be given to those stores which operate jointly with us and to our commissioned shops. The proprietors of these stores and shops are profit-seeking businessmen, but they are in general different from capitalists. We should allow them to make some profits, but not exorbitant ones.

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Outline for a talk on hearing reports by comrades in charge of the Ministry of Foreign Trade.



Trading with Hong Kong and Macao is a policy-related activity. We must be always on guard lest the British Authorities in Hong Kong create obstacles for us. Political education should be strengthened among comrades engaged in trade with Hong Kong and Macao in order that they might be more aware of the importance of their grave responsibilities and so they will be able to stand the test of special circumstances. Such testing is a hard-to-get opportunity of great political significance.

## **TWO IMPORTANT ISSUES AFTER THE DOWNFALL OF THE GANG OF FOUR**

*March 13, 1977*

The downfall of the reactionary clique, the Gang of Four, is a great victory for our Party, which has great historic significance for the Chinese revolution.

My views on the Tiananmen Incident<sup>141</sup> are: 1) the overwhelming majority of the people who went to Tiananmen Square was to mourn the late Premier Zhou; 2) the people were especially concerned about who would succeed the principal leader of the Party; 3) there were only a handful of bad individuals among the people involved; and 4) it is necessary for us to investigate whether the Gang of Four had a hand in this and whether they schemed to take advantage of this incident for their own purposes.

The Tiananmen Incident has caused great concern among the public. Moreover, similar incidents occurred at that time throughout the country.

Comrade Deng Xiaoping had nothing to do with that incident. I have learned that some comrades in the Central Committee have proposed that Comrade Deng Xiaoping resume work in the Party Central Committee for the sake of the Chinese revolution and the Communist Party of China. This proposal is absolutely correct and necessary, and I fully support it.

The present general situation in our country is good. Although there are some difficulties, they are temporary. As long as the whole Party rallies around the Party Central Committee, works hard with one heart and one mind and consults when problems arise, these difficulties will certainly be overcome and our future will be bright.

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Excerpt from a written speech for the Central Working Conference. Because Comrade Hua Guofeng, then Chairman of the CPC Central Committee, was pursuing the erroneous policy of “two whatevers,” this written speech was not carried in the conference bulletin.

## UPHOLDING THE PRINCIPLE OF CORRECTING MISTAKES WHENEVER DISCOVERED

*November 12, 1978*

The Political Bureau of the CPC Central Committee and its Standing Committee unanimously hold that beginning next year, the focus of our work should be shifted to socialist construction. To realize the four modernizations is a pressing desire of the whole Party and of the people throughout the country. I fully agree with this decision of the Central Committee. Stability and unity are also matters of concern to the Party and the people. Cadres and the masses still worry about whether stability and unity can be maintained within the Party.

Chairman Hua<sup>142</sup> stated that issues left over from the campaign to expose and criticize the Gang of Four should be resolved in a proper manner through the careful work of the responsible organs. I think this is correct. But as for the unresolved issues which are very significant or which involve a large number of people, the Party Central Committee should consider these and make some decisions. For example:

1. There is the case of the so-called renegade clique of Comrade Bo Yibo and 60 other persons.<sup>143</sup> Their leaving the Kuomintang self-examination centre<sup>144</sup> was in response to a decision of the Party organization and the Party Central Committee. They were not renegades.

2. The July 7, 1937 Decision<sup>145</sup> of the Organization Department of the Central Committee on so-called Party Members Who Surrendered Themselves was issued before I became head of this department in November 1937 in Yan'an. This decision was identical with that on handling the case of Bo Yibo and other comrades. At that time, I did not know of such a document. Later, in 1941, because of problems that surfaced in examining cadres, I made the decision that comrades who had been released from the Kuomintang's self-examination centre after going through release procedures and who thereafter continued to work for the revolution should be reinstated as Party

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Speech to the Northeast group at the Central Working Conference.

members after being examined.<sup>146</sup> This decision was in conformity to the spirit of the “July 7 Decision” and it too was approved by the Party Central Committee. In my opinion, the Party Central Committee should acknowledge the July 7 Decision and the decision of 1941 as Party decisions. Comrades who were incorrectly labelled as renegades during the “cultural revolution” should be re-examined and their Party membership reinstated if no new evidence of betrayal is discovered. So far as I know, there was a “two-faced” political power in the border regions between our areas and enemy-controlled areas during the anti-Japanese war and the War of Liberation. Party organizations sent Party members to hold positions in the enemy and puppet regimes as a cover for working for our Party and army. Most of these comrades were labelled traitors during the “cultural revolution.” This is an issue which involves the political life of a great number of Party members and it should be re-examined by the Party organizations; Party membership should be renewed for comrades who did not betray the Party.

In short, objective and time-tested judgements about comrades who come under the July 7 Decision and the decision of 1941 and also about the comrades who did revolutionary work in “two-faced” governments will have a great impact both inside and outside the Party. If we fail in this, we will lose popular support. These comrades are already in their sixties or seventies, and it is time their problems were solved.

3. Comrades Tao Zhu,<sup>147</sup> Wang Heshou<sup>148</sup> and others are Party members who were placed in the Nanjing Army Prison and refused to be transferred to the Kuomintang’s self-examination centre. The Party asked the Kuomintang to set them free after the War of Resistance of July 7th<sup>124</sup> broke out. They persisted in a hunger strike until the time of their release. These comrades are now either labelled renegades or, although allowed to take part in organizational activities, are left with a “tail,” such as the accusation of having made serious political mistakes. Many of these comrades are cadres at the provincial or ministerial level. All materials concerning the Tao Zhu case are kept in the First Office of the Special Investigation Group of the Central Committee. The Central Committee’s special investigation groups were formed during the “cultural revolution.” They have conducted many investigations, but they made mistakes in their handling of some cases. In my opinion, cases involving the Party should be turned over to the Organization Department of the Central Committee for re-examination against historical facts, after which objective conclusions can be drawn. The abnormal coexistence of the Organization Department of the Central Committee with special investigation groups should come to an end.

4. Comrade Peng Dehuai,<sup>149</sup> a Party member, held important leading



posts in the Party and the armed forces. He made great contributions to the Party during his lifetime. He was accused of making some mistakes, but I have not heard that he was expelled from the Party. Since he has not been expelled, his ashes should be placed in the Babaoshan Cemetery for Revolutionaries.

5. The Tiananmen Incident<sup>141</sup> is once more gaining attention in Beijing. A drama entitled *Out of the Silence*<sup>150</sup> now is being staged and revolutionary poems which were presented at Tiananmen Square are now being broadcast over the radio. This was a great mass movement in which millions of people in Beijing expressed their grief over the death of Premier Zhou, their opposition to the Gang of Four, and their disapproval of the criticism of Comrade Deng Xiaoping. Similar actions took place in many big cities throughout the country. The Central Committee should affirm this movement.

6. In the early period of the “cultural revolution,” Comrade Kang Sheng<sup>151</sup> was adviser to the Cultural Revolution Group under the Central Committee. During that time, he randomly denounced people by name and was held chiefly responsible for the paralysed state of various ministries of the Central Government and Party and government organs all over the country. Comrade Kang Sheng’s mistakes are very serious; the Central Committee should subject those errors to due criticism at an appropriate meeting.

I set forth these six views and I invite your criticism.

## FIVE OPINIONS ON CURRENT ECONOMIC ISSUES

*December 10, 1978*

The drive to achieve the four modernizations is a great endeavour unprecedented in the history of our country, and it should be carried out energetically and steadily.

On July 31 of this year, I suggested to Comrade [Li] Xiannian<sup>114</sup> that, at the forum on principles being convened by the State Council,<sup>152</sup> a few days be devoted specifically to studying conflicting opinions. We should listen to opinions both pro and con.

By upholding the principle of seeking truth from facts, what we mean is to seek solutions based on the actual current situation. It is crucial to discover the facts first.

While on sick leave in 1942, I carefully studied Chairman Mao's writings, documents and telegrams, throughout which I discerned the basic idea of "seeking truth from facts." It is not easy to clarify "the facts." I summed up this principle of clarification in three words: exchange, comparison and reconsideration. By exchanging different views we can look at things from all sides. In exchanging ideas, we should listen to opinions both pro and con, and we should pay more attention to opposing opinions. With regard to comparison, one method is to make a parallel comparison. For example, where Chairman Mao discussed the possibility of a protracted war against Japan, he compared China with Japan, and then correctly concluded that the war was to be a protracted one. This refuted both the theory of quick victory and that of national subjugation. Another method is to make a sequential comparison. For example, when discussing the issue of a united front, Chairman Mao compared the views of Chen Duxiu<sup>153</sup> and Wang Ming<sup>26</sup> on this issue. Chen stressed unity without struggle whereas Wang advocated struggle without unity. Mao then pointed out the correct conclusion of unity combined with struggle. Finally, reconsideration means that after an issue is tentatively settled, it should continue to be subject to

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Speech to the Northeast China Group at the Central Working Conference.

consideration and discussion in order to solicit various opinions. If there are no opposing opinions, these should be hypothesized. The purpose of repeated study of an issue is to find out the facts and to do our work well.

Now, I should like to put forward five points on economic issues:

1. In three to five years, the annual amount of grain imported could increase to 20 million tons.

We should not be dealing with tension on all fronts. First, we must set the minds of peasants at rest. Once they have sufficient grain, the problems of cotton, non-staple foods, oil, sugar and other cash crops can be solved. If 700 million peasants or more who make up the majority of the population are at ease, the country will be well under control.

The People's Republic has been in existence for nearly 30 years, but we still have beggars—this is not a good situation. We should solve the problems of the peasants and not keep them under too much pressure. If this problem remains unsolved, the peasants are likely to rise in rebellion, and Party branch secretaries might end up leading the people into towns to beg for food.

It is wrong to exclaim that it is revisionist to consume imported grain. During the Lushan Meeting<sup>154</sup> in 1961, I asked Chairman Mao whether we could buy U.S. grain through France. Chairman Mao said it would be all right. Now that we have the Sino-U.S. Shanghai Joint Communiqué,<sup>155</sup> we can now buy grain directly from the United States.

We do not need to worry about importing too much grain. As long as the peasants are at ease, other problems will become easier to handle. If we import too much grain one year, we can simply import less grain the next year. We may have to import grain for more than five years, but the amount can gradually be reduced.

In my opinion, this is a matter of fundamental importance, carrying the most weight of all our economic measures.

2. We should gradually import industrial items and avoid any delays.

Our target is to produce 30 million tons of steel annually, but we should not judge a country by its iron and steel quotas. We are still lagging behind Japan, Germany, Britain and France with respect to an industrial foundation and technical forces, which are very important, though great progress has been made in these two areas when compared with the initial post-liberation period.

We cannot compare ourselves with South Korea or Taiwan, either, for they have been supported by the United States and they are engaged mainly in processing industries. What we want to do is to build up a modern industrial complex.

We should maintain steady progress, and not get caught up in a headlong rush which appears to be quick progress but actually ends up being slow. If some projects have to be left out of the plan, it will be easy to launch them later; however, if construction projects have to be delayed, this will cause much difficulty.

3. The provinces and municipalities should be provided with a certain amount of financial reserves.

We should not just pay lip service to this, but we should do this in earnest. We should trust the leading comrades in these provinces and municipalities. They are all Communist Party members and high-ranking officials. I do not think they will spend money extravagantly.

4. There should be an adequate supply of materials for production and capital construction.

If all projects are begun regardless of shortages of materials, this may appear impressive, but in competing for materials, the leaner projects will be squeezed out by the fatter ones; to be more specific, agriculture, light industry and municipal construction will be squeezed. This has caused the purchasing agents to run around, trying to secure materials.

When materials are not available for a project, whether it be at the local or national level, the project should not be launched.

5. We should pay great attention to the development of tourism. I have read a document prepared by the National Tourism Administration in which they plan to receive 3 million tourists in 1983, for a return of US\$ 3 billion. This is a very important matter. The tourist industry should be given top priority and placed in the same classification as major imports. But we should not think that this is an easy job; we have a lot of work to do in this area.

Tourism will remain under administrative management, rather than business management.

Earnings from tourism accumulate quicker and in greater amounts than from foreign trade. In Great Britain, tourism brings in US\$ 5.4 billion a year. Ours is such a large country that we should expect an even larger income than that. Tourism is "export of scenery; " it is increasingly profitable, with each year bringing more income than the previous year. Is there any harm in promoting tourism? Yes, there could be. First, foreign countries might send agents to do reconnaissance, which has already occurred. Second, some weak-willed Chinese might be bought over. This is not a serious matter provided we pay attention to it. Third, the foreigners will perceive our backwardness. This is not serious either, since foreigners have been aware of this for a long time.



## **SPEECH AT THE FIRST PLENARY SESSION OF THE CENTRAL COMMISSION FOR DISCIPLINE INSPECTION**

*January 4, 1979*

The Central Commission for Discipline Inspection, elected at the Third Plenary Session of the Eleventh Central Committee of the Party,<sup>156</sup> is now convening its First Session. The Third Plenary Session and the Central Working Conference<sup>157</sup> held in November 1978 were quite successful. At the meetings, while following Marxism-Leninism and Mao Zedong Thought, the participants emancipated their minds and spoke out freely. They fully restored and carried on inner-Party democracy and the Party's fine work style of seeking truth from the facts, following the mass line and making criticism and self-criticism; and they conscientiously discussed some of the major problems within the Party and strengthened Party unity. The meetings truly realized "a political situation in which we have both centralism and democracy, both discipline and freedom, both unity of will and personal ease of mind and liveliness"<sup>158</sup> advocated by Comrade Mao Zedong. It was decided at the Plenary Session that this style of work must be propagated among the entire Party, the army and among people of all nationalities. This is a matter of great importance in beginning to shift the focus of the Party's work to socialist modernization this year, and also in maintaining stability and unity within the Party. At the beginning of the Yan'an Rectification Movement,<sup>159</sup> Comrade Mao Zedong held a rectification meeting with dozens of high-ranking officials for several months. The participants criticized each other by name, conducted self-criticisms and conscientiously reviewed the experience gained since the Party was founded. Afterwards, a rectification movement was launched among all cadres. Having accomplished this and on the

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At the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China held from December 18 to 22, 1978, Comrade Chen Yun was elected Vice-Chairman of the CPC Central Committee and First Secretary of the Central Commission for Discipline Inspection.

basis of this movement, the “Resolution on Certain Historical Questions” was drafted and adopted at the Enlarged Seventh Plenary Session of the Sixth Central Committee of the Party. Following that, the Seventh National Congress of the Party was held.<sup>160</sup> All the Party members became united and won the War of Resistance Against Japan and the Liberation War. After the People’s Republic was founded, Comrade Mao Zedong wrote an article entitled “The Situation in the Summer of 1957,” urging the entire Party to realize a political situation characterized by “ease of mind and liveliness.” However, for various reasons and because of interference from various directions, our Party failed to realize this situation for many years. At the Party’s Ninth and Tenth National Congresses,<sup>161</sup> the objective of realizing this goal was incorporated into the Party Constitution, but that was the end of it and this kind of situation was not brought about. At this time the Party Central Committee is setting a good example and, as long as we carry on, “ease of mind and liveliness” will be realized throughout the country. This is something of paramount importance for the whole Party. Only by achieving this can we enjoy stability and unity and realize the four modernizations. If all of us remain silent and are afraid to speak out, things cannot go well.

The *fundamental* tasks of the Central Commission for Discipline Inspection are to safeguard the laws and statutes of the Party and rectify Party style. Our Session is designed to make the necessary preparations for accomplishing these tasks. The aim of realizing a political situation of liveliness was written into the Party Constitution adopted at the Eleventh National Congress of the CPC<sup>162</sup> as well as into the Constitution of China.<sup>163</sup> The realization of this goal is an important task for our Party, the ruling party of a country with a population of 900 million. It also represents an important responsibility of ours in the International Communist Movement.

Over the past 11 or 12 years, I have often thought of the International Communist Movement. It has been 137 years since Marxism came into being. In the 75 years from 1842 during which Marx evolved from being a Left Hegelian<sup>164</sup> to becoming a communist and up until 1917 when the October Revolution in the Soviet Union took place, proletariat revolutionaries had not won any nationwide victories. Nevertheless, Marx had bequeathed much to us; he made great contributions to the International Communist Movement. Engels summarized Marx’s contributions as the following two: (1) the discovery of historical materialism and (2) the discovery of surplus value. Historical materialism brings to light the evolution of productive forces and production relations from primitive society to slave society, to feudal society, to capitalist society, to socialist society and

then finally to communist society, as well as the laws governing the development of human society. The concept of surplus value reveals how capitalists get rich, how workers are exploited and what is in store for capitalist society in the future. These are very concise summaries of the contributions made by Marx. Marx and Engels worked together and coauthored many writings. The *Manifesto of the Communist Party* is one. Because of this, Engels was the most authoritative person on the contributions of Marx.

It has been 62 years since the October Revolution took place in the Soviet Union. In the seven years from 1917 to 1923, inner-Party life in the Soviet Union was very normal. I shall give two examples. One is the signing of the Brest-Litovsk Treaty with Germany.<sup>165</sup> Lenin insisted that the treaty should be concluded, but when the treaty was put to discussion and vote, Lenin was in the minority and Trotsky<sup>166</sup> was diametrically opposed to the treaty. Lenin was right, but his minority had to be subordinated to the majority. But when the situation changed after Germany invaded the Soviet Union and occupied some areas and cities, Lenin said that a greater price would have to be paid unless the treaty were signed. Under these circumstances, Lenin got two more votes from the Central Committee, attained a majority and signed the peace treaty. The other example is that when discussing what role trade unions should play in the Soviet state, Lenin remarked, "Ours is not actually a workers' state but a workers' and peasants' state."<sup>167</sup> Bukharin<sup>168</sup> immediately questioned him, "What kind of a state? A workers' and peasants' state?" It can be seen that under the leadership of Lenin, there was a great deal of democracy. Stalin was the leader for 30 years from 1923 to 1953. He was a great revolutionary. First, he further expounded Lenin's theory that in the era of imperialism, a country can realize socialism. Second, he built socialism in the Soviet Union. Third, he led the people of the Soviet Union in winning the Great Patriotic War,<sup>169</sup> which defended the Soviet state and smashed Hitler's fascists.<sup>170</sup> Stalin made great contributions, but he also had shortcomings and made mistakes which led to abnormalities in inner-Party life. Comrade Mao Zedong gave him a "70-30" rating<sup>171</sup> and so Stalin's portrait is still kept at Tiananmen.

It has been almost 58 years since our Party was founded in 1921. The ruling Chinese Communist Party is the party that triumphed. It is Comrade Mao Zedong who led our Party to great victories. Comrade Deng Xiaoping has clearly summarized Comrade Mao Zedong's achievements. He said that without Chairman Mao, there would have been no New China and that without him our Party would still be waging a bitter struggle in the dark. After we won the democratic revolution, we did a very good job rehabilitat-

ing the economy and carrying out socialist transformation. But we experienced shortcomings and made mistakes in socialist revolution and construction. Why? Because we did not have adequate experience, and it would not do for us to rely solely on the experience of other countries. We cannot require that a revolutionary leader be free of shortcomings and make no mistakes; that is unrealistic. That requirement would conform neither to dialectical materialism nor to the thinking of Comrade Mao Zedong. It is true that after liberation some people did the Party a disservice. Who were they? The overwhelming majority of them were good comrades, but they lacked experience and acted blindly. None of us had much experience. The reason why some people did the Party a disservice is that they were not prudent. In administering such a large country as ours, we must act conscientiously. But many of our comrades were not prudent.

Over the past ten years or so, Lin Biao and the Gang of Four were responsible for a lot of damage. During meetings at that time, Chairman Mao was quoted too often and the participants were required to chant the slogan “Long live Chairman Mao” three times. People had to request instructions in the morning and in the evening they had to report what they had done during the day. In making phone calls, initially one had to quote Chairman Mao. Comrade Zhou Enlai put an end to all of these practices. If it had not been for him, the consequences of the “cultural revolution” would have been unimaginable. Zhou protected many comrades, including all present here. Because of the disruption caused by Lin Biao and the Gang of Four, just as Comrade Ye Jianying<sup>172</sup> expressed it at the Working Conference of the Party Central Committee in 1977, there was something quite abnormal about our Party. In the winter of 1975, the Party Central Committee employed a young man as a liaison.<sup>173</sup> His job was to relay to the Party Central Committee the opinions of Mao Zedong and to report to Mao Zedong the results of the meetings of the Political Bureau. Comrade Ye Jianying once told me that at the time, even a Vice-Chairman of the Party Central Committee like himself could not see Chairman Mao. On December 10, 1978, I asked Comrade Hua Guofeng<sup>142</sup> whether he had been allowed to meet with Chairman Mao at that time. He told me that he had not been permitted to do so and was only able to say a few words to Mao at times when they received foreign guests. Even a Vice-Chairman of the Party Central Committee was not allowed to see Chairman Mao. This shows that the Party was in an extremely abnormal state. After the smashing of the Gang of Four, and especially at the latest Working Conference of the Central Committee and the Third Plenary Session of the Eleventh Central Committee, we began to restore the fine traditions of the Party and a political situation of liveliness reappeared. This



shows that our Party has great promise. When we look at the world, we see before us communist parties with different views. Why do I say that our Party has great promise? Ours is a large country with a population of 900 million and our Party is the ruling party. Our Party occupies a decisive position in the communist world and is the mainstay of the Communist Movement. As long as the Party continues to play this role, victory in the International Communist Movement will be guaranteed. Therefore, I feel that our Party shoulders great responsibilities in the movement. At the Working Conference of the Party Central Committee and on other occasions, I repeatedly stressed our responsibilities. Under the leadership of the Party Central Committee, we shall unquestionably do a good job in building the Party and perform our responsibilities well.

If the Central Commission for Discipline Inspection conscientiously carries out the basic task of upholding Party rules and regulations and rectifies the Party's style of work, it will have done its share in contributing to this great cause.

## PROBLEMS CONCERNING PLANNING AND THE MARKET

*March 8, 1979*

1. The principle in planning is to ensure planned and proportionate development. This idea came from Marx.

*Das Kapital* is a work on political economics. It presents an analysis of capitalism.

In *Das Kapital* the author brings to light the fact that capitalist production is anarchic and that the growing productive forces are bound to come into irreconcilable conflict with the relations of production. Hence, capitalism will ultimately die out.

Before the socialist revolution succeeded in any country, Marx had already predicted that socialist economy would develop in a planned and proportionate way. This theoretical proposition has proven to be correct in every sense of the word.

2. Both the Soviet Union after 1917 and China following 1949 applied Marx's theory of developing the economy in a planned and proportionate manner.

It was quite appropriate for the Soviet Union and China to do so. The point, however, is that both countries failed to apply Marx's principle of a planned and proportionate development with respect to their own experience in building a socialist system and with a view to the level of development of the productive forces in their respective countries. This accounts for the shortcomings that have appeared in those planned economies.

Over the past 60 years the major defect in planning, both in the Soviet Union and in China, has been that they have focused their attention on planned and proportionate development to the neglect of regulation by market forces, which must play its role in the socialist system. Regulation by market forces means regulation according to the law of value. In other words, both "anarchic" and "spontaneous" production may be encouraged in order

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Outline of a paper.

to regulate some sectors of the economy.

Our planning is so rigid and covers so many aspects of the economy that it leaves no room for the market to play its natural regulatory function.

Very often, plans are ill-concerted and planning departments are preoccupied solely with their daily routines.

Since the market has a very limited role to play as a regulator and planning departments attend only to quotas for everyday goods and some major products, it is impossible to produce a great variety of goods. The result is that the people are provided with a very limited selection of daily necessities.

3. There must be two types of economy throughout the socialist period:

(1) The planned economy (the type that needs to be developed in a planned and proportionate way); and

(2) The market-regulated economy (the type that is not subjected to planning but is conducted in response to changing market supply and demand, i.e., regulated in an unplanned way).

The first type is fundamental and primary; and the second, though subordinate and secondary in nature, is indispensable.

Now that we hold political power and have established the first type of economy, we can build socialism. The second type is a useful supplement (not harmful, on the whole).

During the first years after liberation we controlled only the first type of economy; the private, capitalist sector was still there, but ours was still a socialist country.

After we increased the per-catty price of ginned cotton to an equivalent of eight catties of rice, there was a remarkable increase in cotton production.

The crux of the matter is that we remain unaware of the necessity of having both of these two economies and that we are still undecided as to the proper ratio for these two types of economy in different economic sectors.

The above explains the following two shortcomings in our planning:

a) We are not strict enough in seeking a proportionate development where we should be. Examples are as follows:

Capital construction is over-extended;

The electric power industry and transport services, instead of developing ahead of other undertakings as they should, are lagging behind;

The raw materials industry is not developing in proportion to the processing industry, the latter being larger than the former;

There is an imbalance within the iron and steel industry;

The same is true between the various industries, and of course, imbalance between agriculture and industry poses the biggest problem.

b) We are not flexible enough where we should be. Examples are as follows:

Planning is over-centralized;

We are still exercising a too rigid control over the part of agricultural production which is undertaken by individuals and collectives, that is not included in state plans; and

The local authorities are so keen on construction projects that they do not retain sufficient funds for other uses.

4. Neglect of the regulatory role of the market leads to neglect of the law of value, as illustrated by the fact that many comrades have no conception of "profit." Entrepreneurs cannot afford to act like pampered youths when they manage the economy.

After being blockaded by the Soviet Union,<sup>174</sup> Yugoslavia had to give free rein to the development of a market economy. It seemed that in the early years the proportion of the economy controlled by state planning was too small, but Yugoslavia gradually increased that proportion later on.

5. The economy in our society is characterized by a vast population, with rural residents accounting for 80 per cent of the total, and a relatively small amount of arable land.

Yet, our comrades working in the planning, industrial and commercial departments do not have a profound understanding of this fact.

They are bound to run into snags unless they try to remedy their ignorance.

To arrange our efforts with priority given to agriculture, light industry and then heavy industry<sup>119</sup> embodies the integration of Marxism with the practice of the Chinese revolution.

6. In the course of readjusting the economy and reforming the economic system in the years to come, we shall lay stress on establishing a proper ratio between planned economy and market economy. An increase in planned economy will not necessarily lead to a decrease in market-regulated economy. Most likely the two will grow proportionately.



## LETTER ON FINANCIAL AND ECONOMIC WORK TO THE CPC CENTRAL COMMITTEE

*March 14, 1979*

We should like to make a few points on the present and future financial and economic work.

1. We should advance steadily and avoid reversals and drastic fluctuations.

2. From a long-term point of view, we cannot achieve the highest growth rate unless we develop the national economy proportionately.

3. Currently there is a serious imbalance between various sectors of the national economy.

4. It will take two to three years to basically balance various sectors of the economy.

5. The target for steel production must be realistic. In producing steel, we should lay emphasis on quantity, but a greater emphasis on quality. Efforts should be made to readjust production quotas for various steel products needed for economic development in China. In deciding the growth rate for steel production, we should pay attention to a proper balance between various professions and trades such as agriculture, light industry, other heavy industries, communications and transportation, culture and education, public health, construction of urban housing and environmental protection. Since capital construction projects involving steel enterprises require a long period of time, we should draw up not only five-to-seven-year plans but also a long-term plan up to the year 2000.

6. In taking out foreign loans, we should give full consideration to our ability to repay capital with interest and also to domestic investment capability, and we should gradually increase the use of foreign funds.

The above opinions are offered for examination and approval by the Party Central Committee.

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A joint letter by comrades Chen Yun and Li Xiannian to the CPC Central Committee.

## UPHOLDING THE PRINCIPLE OF PROPORTIONAL DEVELOPMENT IN ADJUSTING THE NATIONAL ECONOMY

*March 21, 1979*

I shall discuss four issues today.

1. To build our country into a strong socialist state we must have a clear understanding of the situation under which we are carrying out the four modernizations. Seeking truth from facts implies clarifying the facts first. Nothing can be accomplished without a clear understanding of the situation.

Ours is a large country with a population of over 900 million, 80 per cent of which are peasants. It is already 30 years since the victory of the revolution and people are now demanding better living conditions. Has there been any improvement? Yes. But there are still beggars in many places, which is a serious problem. I stated at the Central Working Conference held last year<sup>157</sup> that it had been 30 years since liberation and that if this problem remains unsolved, it could reach a point whereupon local Party branch secretaries will be leading their people into the towns and cities to beg for food. If we ignore this possibility, the economy as a whole will suffer. The peasants constitute the majority of our people; they should not be subjected to too much hardship. Many commune-run industrial enterprises and small industrial enterprises have appeared in townships. The reason for the establishment of these enterprises has to do with providing employment and raising the standard of living. Naturally though, there is a lack of planning behind these enterprises.

On the one hand, we are still very poor; on the other hand, we want to realize the four modernizations within 20 years, i.e. by the end of the century. This involves a contradiction. Having a large population makes it difficult to improve living conditions, and modernization will lead to less use of manpower, creating more unemployment. We have to carry out the four modernizations against the background of these contradictions. Recognition

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Speech at a meeting held by the Political Bureau of the CPC Central Committee.

of this reality is the starting point in formulating our blueprint for economic development. No other country has as large a population or as large a peasantry as our country. Electricity is needed for agriculture, small township industrial enterprises and large industrial enterprises, so a shortage of electricity will be unavoidable. According to the way calculations are made in other countries, production of a certain amount of steel requires a corresponding proportionate production of electricity. This method of calculation cannot be used in China because agriculture must be taken into account in undertaking construction. So-called balanced development refers in the main to this, which is a matter of fundamental importance. Many comrades engaged in industry and commerce give little consideration to this matter. The Soviet Union now has an insufficient labour reserve; China will never experience this problem.

In summary, we have a population of over 900 million, 80 per cent being peasants; beggars still exist 30 years after the victory of the revolution; and living standards still need to be improved. These are the conditions under which we are carrying out the four modernizations drive.

2. Proportionate development promises the quickest growth. The document formulated by the Planning Commission<sup>175</sup> is fairly well written. However, to produce 32 to 33 million tons of steel this year does represent a standstill in development. The past idea was that raising targets is Marxist but lowering targets is revisionist. This idea is incorrect. A standstill can also be considered as Marxist. The adjustment made in the early sixties<sup>121</sup> reduced the steel target to six million tons—the lowest to date. This year the target is neither 36 million tons, nor is it 34 million tons; it has been set at 32 to 33 million tons. In my opinion, 32 million tons of steel should be the target for this year.

We made the mistake of giving predominance to the production of steel and practice shows that this cannot last for long. Steel production requires coal, electricity, nonferrous metals, etc. If we continue the practice of the past, we will experience a shortage of electricity, transportation, coal and oil. Even if we have power plants, the lack of sufficient coal and oil will force them to lie idle. Also, if steel retains too prominent a position, it will squeeze out other industries and other undertakings. I have read the tentative plan worked out by Ministry of Metallurgical Industry for borrowing money from other countries. They have good intentions and they want to promote the steel industry, which is understandable. There is no communist who does not want us to produce more steel. Some people had the impression in the past that I was persistently advocating less steel production, and the less, the better. How could this be so? I am a communist; it is my desire, too, to

produce more steel. The question is whether the target can be fulfilled. Comrades in the Ministry of Metallurgical Industry have taken this issue too lightly and have considered it in isolation. Is it possible to borrow such a large amount of money from other countries? In the days of the old society, I stayed in Shanghai for a period of time. Banks there would conduct thorough research to ascertain whether prospective borrowers had the ability to repay loans. Foreign merchants have offered to lend us money. Some of the offers are in earnest while others are not. This issue should not be regarded as a simple one. The purpose in borrowing money from abroad is to ensure the development of the steel industry and the manufacture of metallurgical machines. All loans have to be guaranteed by the People's Bank, but the exact amount of money we require has not been calculated precisely. Calculations have not been made to determine how much domestic investment will be required to match such a large amount of foreign funds. If this endeavour alone absorbs all our investment, what will happen to other projects? The Ministry of Metallurgical Industry has promised that it will not hold back other projects, but in reality this promise can not possibly be honoured. If construction is carried out on such a large scale at such a high speed, other industries will not be able to coordinate with and support this development.

I read all the important speeches delivered at the forum on principles held by the State Council<sup>152</sup> last year. At that time, I suggested to Comrade Xiannian<sup>114</sup> and Comrade Gu Mu<sup>176</sup> that the forum be extended for a few more days to listen to differing opinions. Those who made investigative trips abroad returned and proposed, as did higher authorities to their subordinates, that several hundred million dollars should be borrowed from foreign countries and that development should be quickened. In short, they are advocating that we borrow more and that we develop the economy even faster than those countries which were able to raise their level of development within a period of eight to ten years. Some comrades are not in a position to speak openly, so during the forum few people raised any objections to this viewpoint. The Central Committee has decided to borrow money from other countries, and this is a correct decision. But it is impossible to borrow such a large amount. Some comrades are paying attention to the situation in other countries only, and neglecting the realities in our own country. We are presently lagging behind those countries in industrial base and technological development. Some of those countries maintained a high rate of development because of preferential treatment from the United States. It would be a mistake to consider borrowing money, focusing only on the high level of development in other countries while ignoring the actual situation in our own



country. In developing the economy, it will not do to rely on borrowing more foreign funds while ignoring the requirements of a balanced development.

3. It will take two to three years for adjustment, preferably three. In the period of military control during the “cultural revolution,” army generals were in charge of the economy. Some of these generals, for example, Cheng Shiqing<sup>177</sup> had little experience and were too bold. At that time the annual production of automobiles in the country was 60,000 to 70,000, but Cheng declared that Jiangxi Province alone could produce that amount. Where could we possibly secure so much steel plate? He also wanted Jiangxi to provide all of the grain that the country otherwise planned to import. Jiangxi had for a long period of time been providing only 750,000 tons of grain a year to the Central Government. At that time, the country was importing 5.35 million tons of grain a year, while Jiangxi’s annual production of grain was only 9.85 million tons. If Cheng had used Jiangxi’s production to provide all the grain that the country would otherwise have needed to import, there would have been only 4.5 million tons of grain left over for the people in Jiangxi Province, and they would have undoubtedly rebelled over this. Acting on whims and impulse, those generals feared nothing.

Disproportionate development has become a very serious problem. There are presently over 1,700 major capital construction projects and several tens of thousands of smaller ones. We have to make up our minds soon to simply drop those that are beyond our capacity. Without adequate coal, power, and the raw and semifinished materials necessary to complete these projects, our efforts will have been in vain. I agree with the opinion of Comrade Qiuli<sup>178</sup> and others that the large and technically advanced enterprises should be “well fed” first. This is correct. Those local industrial enterprises and commune-run enterprises that compete with the major industrial enterprises for materials and electric power should be given up, too. “Distributing among five the food for three” cannot last long. Some localities may not be willing to shut down their small chemical fertilizer factories. In my opinion, those that are capable of surviving should be allowed to keep functioning, while the more precarious ones should be abandoned. Of course, the coexistence of both modern and backward enterprises will endure for quite a long period of time in our country. Otherwise, there would not be sufficient employment and some people would create disturbances. The task of adjustment will not be so easy to accomplish, for problems have piled up during the past 10 years. We have launched a fairly large number of “bone” projects, but too few “flesh” projects.<sup>31</sup>

The purpose of the adjustment is to achieve proportionate development

in the national economy. There should be an integral arrangement of key enterprises, township industries and commune-run industries.

4. What would be an appropriate steel target for the year 2000, 21 years from now? In my opinion, we would be doing well to produce 80 million tons. There may seem to be a strong sense of “pessimism” in my words. The problem is that it will be impossible to produce 60 million tons of steel by 1985. My figure of 80 million tons of steel for the year 2000 is just an estimate, but it is not without foundation. It would involve an average yearly increase of two million tons, or a little more. It would be quite a blessing if a good deal more than 80 million tons could be produced, but I would be satisfied with even a little less than that figure. I am not here considering figures only. The steel must be of good quality and produced in a wide variety. By that time, only a few countries will be capable of producing 80 million tons of steel. We should take into account that nearly 20 years of progress has been lost. It would not be bad at all if we could reach the target of 80 million tons of steel by the year 2000. Our plans should be formulated on the basis of this figure. We have set the target in the long-range plan at this figure and any surplus will be welcome, though a little less will also be acceptable.

The Ministry of Metallurgical Industry should focus on the quality and variety of steel. It will be a great accomplishment if we can produce a wide variety of high quality steel. In this way, during the next 20 years other industries and transportation will be able to develop accordingly. This will also help to promote science and technology as well as urban construction. Pollution control must be given priority; letting it slide for now and then having to deal with it in the future will be even more costly. The standard of living in most areas and for most of the people will reach a medium level, while a small number of areas and some people may be allowed to become prosperous first; there can be differences in living conditions, but the differences on the whole should not be too great. But, for an area such as Gansu to be able to catch up with, for example, the provinces south of the Yangtze River, will be no easy task.

Are we going to accept foreign investment? Are we going to absorb foreign technology? We definitely are. Furthermore, we are going to make full use of these, although we should introduce them gradually.

Sources for increasing our foreign exchange should be found. This should be regarded as a matter of great importance. Foreigners believe that we are not very capable of repaying debts, which is true. Export of agricultural products alone is not sufficient. More avenues must be found. At the Central Working Conference, I read some materials put forward by the

Tourist Agency to the effect that they are planning to bring in three billion U.S. dollars in 1983. Will this be very easy? I am afraid not. But we can develop other resources such as oil by using advanced American prospecting technology. Benefits from developing the oil industry will accrue very rapidly. Compensation trade,<sup>179</sup> cooperative production and contracting processing materials or manufacturing equipments can all be utilized. In brief, earning foreign currency must be a key endeavour.

There are some problems concerning my appointment as Chairman of the Commission of Finance and Economy of the State Council.<sup>180</sup>

First, I am definitely not up to it physically.

Second, my experience is still limited. The scale of economic development during the early period after liberation was much smaller than it is now. Now the scale is so large and the situation so complicated that it is beyond my abilities.

Do not overestimate my abilities. I, too, have had a lot of unfortunate experience. The Sanmenxia project, for which I was responsible, was one of the 156 projects.<sup>181</sup> It could not possibly be viewed as a success, but must be seen as a failure.

I know my own limitations.

If I am expected to do some work, I will take up only what I think to be the most necessary aspects. So I can attempt to do my best.

## **SPEECH AT THE FIRST MEETING OF THE FINANCIAL AND ECONOMIC COMMISSION OF THE STATE COUNCIL**

*March 25, 1979*

We are meeting today to establish the Financial and Economic Commission of the State Council,<sup>180</sup> which consists of a total of 12 members. Except for Comrade Wang Zhen,<sup>182</sup> everyone is present. I should like to say a few words at the beginning of this first meeting today.

First, we should be of one mind and make concerted efforts to cooperate with each other. Today, present is everyone who has done financial and economic work in the comprehensive state organs since liberation, with the exception of Comrade [Li] Fuchun<sup>76</sup> who passed away. Among us, the youngest is 62 years old and the older ones are over 70. I am 75. Government departments have changed over and over again for 30 years, but we veterans are still here. Why did I say that we should be of one mind and make concerted efforts? Well, all of us are Party members. Since we are working together, we should be of one mind. Our financial and economic work involves many problems such as those related to industry, agriculture, communications, transportation, food and clothing for our people and the like. A great variety of problems gives rise to different viewpoints. There are many different ideas on solving such problems. I think it is good to entertain various opinions, even if people argue so heatedly that they blush up to their ears. During the period of the Financial and Trade Office,<sup>127</sup> as I remember, there was once a dispute as to whether it was necessary to raise the prices of agricultural products. A comrade by the name of Wang Xueming<sup>183</sup> was against the price increases. The debate went on for three days. In the end he admitted that he was wrong. I think that having such a debate is fine. In the end, problems will have been clarified through debate. Through comparison we can determine which ideas are best and reach consensus. It is not very helpful to consider only one viewpoint.

Second, we should engage in readjustment and promote the four mod-



ernizations. By readjustment I mean readjusting our steps. We should mark time whenever necessary; we should stop construction of some projects if necessary; and we should work “with whip and spur” wherever it is possible. The purpose of readjustment is to enable us to move forward and promote the four modernizations.

Third, we shall attend the Central Working Conference<sup>184</sup> to be held on April 5. I anticipate that there will be a lot of questions for discussion at the conference. Can this conference be completed within one week? Each of the ministries has its respective views, as does each locality. We should encourage democracy in discussing economic affairs and allow everyone to speak out. We should listen attentively. I think that there will be many practical issues raised. The conference should discuss at least a few important ones, such as the unemployment problem which is affecting 20 million people. The current readjustment is different from the readjustment in the early 1960s.<sup>121</sup> In those days, some personnel could be transferred to work in grass-roots units or to do manual labour in the countryside or in factories. But we cannot do so this time. Also in some localities, school graduates now working on farms earn 32 to 44 yuan a month. Their incomes are much higher than those of the peasants. All of these graduates want to return to the cities where their parents are living. That is impracticable on the whole. We must solve this problem through persuasion and education. It is impermissible to allow them to petition the government or assault government offices. There must be both democracy and obedience to law. It is imperative for us all to practise democracy and to abide by the law as well. We shall accomplish nothing without these two.

The forthcoming working conference of the Central Committee will discuss economic problems mainly. Is it necessary to discuss the issue of democracy and the legal system? It should be discussed. One foreigner stated that the problem of the “democracy wall”<sup>185</sup> in China is a minor one, and that the real problem is that of the peasants. At present, some peasants do not have enough food to eat. If things go on like this for another ten to 20 years, secretaries of Party branches will be leading the peasants into the cities to beg for food. Such a case did occur when we were in Yan’an. If we respond by saying that begging for food is not allowed, they can argue that the Communist Party has never prohibited begging for food. Did Chairman Mao ever say that begging for food was forbidden? There will probably be disputes on some issues at the working conference of the Central Committee. To create jobs for 20 million people, increase the living space for the urban population, settle the problem of married couples living separately and so on is to settle some of the most outstanding issues. Funds for urban construction

once accounted for 1.5 per cent of the budget and later dropped to less than 1 per cent.

Fourth, we should try to find about five young cadres between the ages of 40 and 50 to work in the Financial and Economic Commission. They should be experienced in this work. We should not have too many of them; they are not to serve as secretaries, but as our “backbenchers.” All of us are about to “retire on account of old age and return to our native localities.” I was 45 at the time of liberation. In those days I could work three or four shifts around the clock. I attended meetings in the morning and afternoon, talked with Premier Zhou in the evening and went to see Chairman Mao at midnight. My schedule was full. Now I can work for only two half days a week. I cannot do more than this. If I tried to do more, this would only hasten trip to Babaoshan.<sup>186</sup> It seems to me that we need some “backbenchers.” These people can participate in discussions and in making major policy decisions. I believe it is necessary to train such people.

Fifth, we should pay attention to the grain shortage. I said once that when the turnover of grain dropped to 18 billion kg, we should sound the alarm. One person must be in charge of grain, as was determined by Premier Zhou a long time ago. The shortage of iron and steel is difficult to solve. The grain shortage seems to be an even more difficult problem. We need to import some grain from abroad. On the one hand, the localities should not depend on the central authorities, but on the other hand, the central authorities must control some of the grain.

Pertinent data should be sent to comrades in the Financial and Economic Commission for examination, especially financial and economic data, statements and reports.

## **WORKING TOGETHER WITH ONE HEART TO BUILD THE BAOSHAN IRON AND STEEL COMPANY**

*June 16, 1979*

Participants at the plenary meeting of the Financial and Economic Commission concentrated on discussing construction of the Baoshan Iron and Steel Company, which they approved. The Baoshan Iron and Steel Company is a colossal project which has a great bearing on Shanghai and on the whole country. It requires a huge investment of over 20 billion yuan. We could say that the project was launched in haste. We should have had more time to conduct research and studies on such a tremendous project so that we could have made a decision based on repeated deliberations. From the time the project was launched, it has been progressing smoothly and over 50,000 workers are now working on it. This is a great achievement. We should thoroughly consider related issues as they arise to make up for past deficiencies.

In the past one and one-half months, I thrice considered different ways of building the Baoshan Iron and Steel Company. First, after I read the document<sup>187</sup> in which Comrade Gu Mu wrote instructions on May 11, I thought that we should basically rely on our own efforts, that we should buy foreign technology and patents and import key equipment. Then, I asked Comrade [Bo] Yibo<sup>32</sup> to hold a symposium in Beijing and hear the views of some comrades who had worked in the iron and steel industry. Second, after I went to Shanghai on May 31, I had the idea that we should import every necessary. The comrades in charge of the Baoshan Iron and Steel Company project shared this view. I added one more point—to buy the equipment, the manufacturing technology and the patents simultaneously. Third, when I left Shanghai on June 6, my last view, formed after deliberation, was to act according to the report submitted by the three commissions, the three

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Speech at the plenary meeting of the Financial and Economic Commission of the State Council.

ministries and the bank. To think this matter over three times was helpful for me.

I had another question. I wondered whether in the seven years from the beginning of its construction in 1978 to its completion in 1984 it would be possible for the Baoshan Iron and Steel Company to begin turning out steel and then to reach its designed capacity within nine years. The Anshan Iron and Steel Company has operated for several decades, but it produces only six to seven million tons of steel per year. I also wondered whether construction should be postponed for two to three years because the Baoshan Iron and Steel Company is a huge project and construction is progressing too rapidly. At the symposium attended by comrades from the No. 1, No. 3 and No. 5 Steelworks of the Shanghai Iron and Steel Company and the Metallurgical Bureau, I made that proposal and asked them to consider it. Perhaps I am approaching problems according to the old views prevalent in the 1950s, even though we are now in the 1970s and there has elapsed an interval of twenty years or more. On May 31 Comrade Tang Ke<sup>188</sup> presented a suggestion letter from the Ministry of Metallurgical Industry to me, saying that the principal part of the project of the Baoshan Iron and Steel Company can be completed in 1984. There is logic to this suggestion letter. Therefore, I agree with it. I once thought that after the principal part of the project was completed, construction could be halted for a couple of years so that we could conduct rectification and review experience and then initiate the second-phase of construction. But it now appears to me that there is no way to stop construction halfway.

I should like to put forward the following eight suggestions:

(1) We should complete construction of the project. This is what Comrade [Li] Xiannian<sup>114</sup> said. I agree with him. The scale of construction should be determined according to the plan set in the report submitted by the three commissions, the three ministries and the bank on May 11. We should first decide on the scale of construction. It is improper to hesitate in making a decision.

(2) We should list all necessary items without omissions. When shops do business, shopkeepers should not be fearful about large transactions. It is better to anticipate the unexpected than to have to make up for deficiencies afterwards. Of course, we cannot anticipate everything, but we can foresee major requirements. In addition, we should also consider external coordination, such things as the supply of coal, electricity, transportation, use of docks, treatment of sand in the river and cooperation with the First Ministry of Machine-Building.

(3) We should buy equipment, technology and patents simultaneously.



I wonder whether we should spend only US\$ 200 million buying technology and patents.

(4) We should train office staff and workers beforehand. The Baoshan Iron and Steel Company is advanced technically and requires office staff and workers with high skills of all kinds, so we must make a success of early training. The ash content of coke, for example, should not exceed 8.5 per cent, and the sulphur content of iron ore powder should not be higher than 4.6 per cent. Otherwise, the quality of the steel will be adversely affected. This issue should be studied and solved as quickly as possible. If we master this technology, it can be used in the Ma'an Shan Iron and Steel Company, the Wuhan Iron and Steel Company and the Anshan Iron and Steel Company and in other iron and steel companies.

(5) Who will be in charge of the Baoshan Iron and Steel Company? The report says that the State Capital Construction Commission will assume overall responsibilities. I agree with this. The person in charge of the Baoshan Iron and Steel Company include Comrade Gu Mu, Comrade Han Guang<sup>189</sup>, Comrade Ye Zhiqiang<sup>190</sup> from the Ministry of Metallurgical Industry and Comrade Chen Jinhua<sup>191</sup> from Shanghai. Some comrades in Shanghai proposed that Shanghai should assume overall responsibility. I think that it would be difficult for Shanghai to do so, because the project involves many ministries and provinces.

(6) We should set strict and even rigorous demands on the Baoshan Iron and Steel Company. The project must be a complete success. We are launching this project for the purpose of gaining experience. The Baoshan Iron and Steel Company is the first large project necessary for achieving the modernization drive, so it should serve as a model.

(7) The Ministry of Metallurgical Industry has the responsibility of assisting in the work of other relevant ministries. It is an important ministry of heavy industry. In particular, it should perform the responsibility of increasing the machine-building capability of the First Ministry of Machine-Building Industry. We all are Chinese, and we are also Communists. The Ministry of Metallurgical Industry should take the overall situation into account. Departments of coal, power industry, railway transportation and water transportation, the First Ministry of Machine-Building Industry and the Fourth Ministry of Machine-Building Industry must make concerted efforts to make a success of the Baoshan Iron and Steel Company.

(8) The Ministry of Metallurgical Industry should organize all cadres to hold discussions on the Baoshan Iron and Steel Company and accept useful suggestions. We too should listen to various opinions with a view to doing our work well. I propose that all major metallurgical experts throughout the

country participate in discussions, attend to this project and show concern for it, as this is not a secret project. In Shanghai I held talks with comrades from the No. 1, No. 3 and No. 5 Steelworks of the Shanghai Iron and Steel Company and from the Bureau of Metallurgical Industry. They reported that they did not have much information on the construction of the Baoshan Iron and Steel Company. This state of affairs must be corrected. Why should experts be asked to participate in discussions? The reason is this. The Baoshan Iron and Steel Company utilizes the technology of the 1970s and 1980s, but in constructing this project we must depend on experts and skilled technical workers who have mastered the technology of the 1950s and 1960s. After the project is completed, we will be relying on these people to do the work. Therefore, we must update their technical expertise. Foreign experts will inevitably go home; we will retain only a small number of them over a long period of time. We should ask foreign experts to come to investigate the project and put forward their suggestions. However, we still have to depend on our own experts and technical workers to discuss how to build the project and manage it after it is put into operation.

I am putting forward only these eight suggestions concerning the Baoshan Iron and Steel Company. After a final decision is made through discussions, the Financial and Economic Commission should prepare a report to be submitted to the Political Bureau of the Central Committee for approval. For the present, we can sign contracts with foreign companies and begin our work. In short, we should all make concerted efforts to make a success of the construction of the Baoshan Iron and Steel Company.

In addition, I have several matters for your consideration.

(1) Comrade [Deng] Xiaoping<sup>192</sup> proposed establishment of a Technology Management Commission. He suggested that Comrade Fang Yi<sup>193</sup> should lead the commission, which would consist of Comrades Ni Zhifu and Shen Hong<sup>194</sup> and a large number of machine-building experts.

(2) An Import and Export Management Committee should be established. Comrade Gu Mu is asked to lead the committee.

(3) We should like to ask Comrade [Yu] Qiuli<sup>178</sup> to be responsible for considering which projects should be launched, which should be suspended and which should be added to the list of 120 projects proposed last year. He should also do more comprehensive planning in relation to all of this.

(4) How can we realize the four modernizations? Of course, we must rely on our own efforts. So far as import is concerned, I think that we should buy not only complete sets of equipment for factories but also technology and patents. The goals of the modernization drive will certainly be achieved. We must build our confidence. However, some people are now demanding

modernization with respect to living conditions. I am afraid that this is not appropriate. When the modernization drive is accomplished, the standard of living will undoubtedly have risen to a great extent. But our standard of living should not be compared with the United States, Great Britain, France, Germany, Japan or other countries, because our country has a large population, most of whom are peasants. Advanced industries should be the index of modernization. This advance undoubtedly can be accomplished.

## TWO MAJOR PROBLEM IN ECONOMIC DEVELOPMENT

*June 17, 1979*

There are two problems which demand our immediate attention.

The first concerns water resources throughout the country.

Agriculture requires water. So do industry and the people. There has been a shortage of water in areas such as Tianjin and Beijing. From now on, water consumption must be taken into account in setting up any new factory. While some factories must be established in localities with rich mineral resources, others can and should be established in areas which have an adequate supply of water. Also, we should take measures to conserve water even at factories with adequate water resources.

The second problem concerns industrial pollution.

As for existing factories, we should determine which ones have failed to find a solution to the pollution problem and then gradually change that situation. From now on, in designing new factories, priority must be given to the disposal of toxic materials so that pollution can be effectively prevented. This is a most important issue.

As to the two above-mentioned problems, I wonder whether it is possible for Comrade [Yao] Yilin<sup>83</sup> to consult with the concerned economic research organs and other units and ask them to collect data and to prepare a letter within the next two to three months containing relevant suggestions for discussion thereafter.

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Letter to Comrades Li Xiannian and Yao Yilin.



## MAINTAINING STEADY ECONOMIC DEVELOPMENT

*September 18, 1979*

1. Economic readjustment, i.e., implementation of the principle of readjustment, restructuring, consolidation and improvement, is not an option; it is a necessity. The State Planning Commission has proposed that we invest 25 billion yuan in capital construction next year, while the figure put forward by the Ministry of Finance is 17 billion yuan. Both of these figures are smaller than the 45.1 billion yuan we spent in 1978 or the 36 billion yuan spent in 1979. Actually this proves that investments in 1978 and 1979 exceeded the country's financial and material capacity. This situation has existed to a greater or lesser degree since 1970. Overextended capital construction is an old problem.

2. In investing in capital construction we should not have deficit.<sup>195</sup> That is, the amount to be allocated for investment in capital construction should be determined on the basis of maintaining a financial balance, and only such a figure should be used to formulate the plan for capital construction. Thus, judging from our 30 years of experience, we need to come up with a general guideline for the correct ratio of investment in capital construction to total expenditures. This is the only realistic way to proceed.

3. We should not change convertible foreign currency<sup>196</sup> into Renminbi for the purpose of making up the capital construction investment deficit. Of the US\$ 4.4 billion in convertible currency that we have borrowed, \$3.1 billion has been used in other sectors, and it will be impossible to borrow another \$5 billion in convertible foreign currency next year to be changed into Renminbi for investment in capital construction. Can the capital construction investment deficit be made up by issuing currency? This is not possible, and we should definitely not try it because it will lead us into a dead end. We must not incur an investment deficit for capital construction each year, because if we issue currency every year to carry on capital construction,

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Speech at a Meeting Reporting Economic Development held by the Financial and Economic Commission of the State Council.

the situation will explode at some point. If the deficit is not reduced next year, we will have to make major cuts in the two years that follow, and the situation will become even worse. Therefore, I propose that we eliminate this deficit so we can prepare a realistic plan for investment in capital construction.

4. Here is an analysis of our foreign debt. Today, no one rejects foreign loans, but we must understand what we are doing. Generally speaking, there are two kinds of foreign loans. The first is line of credit, which means that foreign countries will sell us machines and equipment which can be paid for over a period of several years or even longer. This lending method is in fact simply selling us machines and equipment instead of lending us convertible foreign currency. The second type is a loan in convertible foreign currency, which to date amounts to only \$4.4 billion. This convertible foreign currency can be converted into Renminbi by the People's Bank for domestic use.

Even with the first kind of loan, that is, loans for purchasing equipment, the amount which we can make use of every year cannot be determined by our subjective desires. Instead, it must be determined by the amount of domestic investment required to support the loans that we contract. If the available domestic complementary investment is small, the use of loans is limited. If we persist in importing equipment despite our lack of domestic investment, the equipment will only end up being put aside. At the moment, some comrades are suggesting that foreign currency can be taken "off the hook."<sup>197</sup> But this is not feasible if we have insufficient convertible foreign currency.

We are still inexperienced in utilizing foreign capital for economic development and we need to research how to use it conscientiously.

5. Since investment in capital construction is determined by an appropriation for the year, the scale of next year's capital construction should be planned in accordance with the amount of next year's appropriation. Running over this limit will lead to a deficit, and additional currency will have to be issued. This is not the road that we should take, and we certainly cannot take it year after year. If everyone accepts this as a correct view, then it follows that capital construction projects should be approved by an authoritative organ like the State Planning Commission. If a project is necessary, it must be launched; if a project does not have sufficient funding, it must be abandoned. We must determine which projects should be carried out and which ones should not, rather than proceeding indiscriminately and calling for an across-the-board 30 percent reduction of all projects. This would not alter the overextended situation in capital construction. Without determination, our pledge to curtail capital construction will become empty

talk. An indiscriminate 30 per cent reduction of all projects would lead us nowhere and would damage both the country and the people.

6. The convertible foreign currency already borrowed is a fairly small amount and serves as our circulating foreign currency. During readjustment and future construction, it should be used only on small projects or on projects that can bring about quick returns, that is, those which can quickly repay the loans. Some of the money will have to be used in payment for armament. Only when it becomes a necessity can some of the foreign currency be diverted temporarily to repay the principal and interest on loans for certain major projects. However, this diversion must be temporary, and the money must be returned to the bank quickly.

7. Only the following reliable sources of foreign currency should be used to repay the principal and interest on loans for major projects: A) foreign currency gained from an increase in exports of oil and coal; B) the net foreign currency turned over to the state from the tourist industry; C) the increase in foreign currency turned over to the state from the special regions of Guangdong and Fujian provinces;<sup>198</sup> and D) the increase in foreign currency turned over to the state from exports of textile products, light industrial products, heavy industrial products, and arts and crafts. An estimated ten years will be required before the first three of these four sources of foreign currency bring in several billion dollars for the Central Government each year. This is not something that is easy to achieve in a couple of years. Even when the Pingguo Aluminum Mine<sup>199</sup> is completed, which will help pay back the debt as well as reduce imports of aluminum, the time required to do so will be no less than ten years. As to the export of textile products, we should keep in mind the issue of so-called quotas<sup>200</sup> by which European countries, the United States, Japan and other countries restrict our exports to protect their own textile industries and prevent unemployment. We have already encountered this problem in Europe, the United States and Japan.

8. How many gigantic projects like the Baoshan Iron and Steel Works, the Pingguo Aluminum Mine or the Three Gorges Power Plant (still pending a decision from various circles as to whether it should be constructed) can be completed in the five-year periods of the sixth and seventh five-year plans? (What I am asking is how many can be completed, not how many can be launched). Construction of each large project takes around ten years. From my point of view, only one on average can be completed during each five-year plan period. Why? Investment for each of these large projects is approximately 20 billion yuan, which averages about 4 billion yuan for each of the five years. This amount can be sustained by our financial and material

resources, and one project can be completed. But, if instead of trying to complete one project in five years, we plan to complete several, perhaps even attempting one project a year, this will obviously not work. Our total appropriation for capital construction this year, according to calculations by the Ministry of Finance, is only 17 billion yuan. If a large project like the Baoshan Iron and Steel Works were to be scheduled for completion each year, this would use up more than one year's total capital construction appropriation; if two or three were scheduled to be completed at the same time, not only would these large projects fail to be completed, but the last cent would be squeezed out of all the funds needed for other uses, and there would still be a deficit. Even when we can secure some loans from foreign countries, our own complementary investment should make up nearly half of the total funds needed. It is true that revenues increase every year and the appropriation for capital construction also increases proportionately, but the expenses involved in capital construction projects other than large projects will also increase. For example, light industry, national defence, transportation, schools and urban construction will experience corresponding expense increases. I feel that we should be mentally prepared for this. You should give careful consideration to this important issue.

9. On the basis of the points mentioned above, I hold that in the process of realizing the four modernizations, beside constructing several large projects, we should also focus on tapping the potential of our existing enterprises and update them. These enterprises have a fairly adequate foundation; based on this foundation we should introduce new foreign technology, either to make up for what we lack or to round out our own technology. These methods should be adopted to expand our productivity. Not only the construction of large projects, but this too is a matter of major importance on which we must focus our attention.

10. Applying these methods in carrying out capital construction and making full use of existing enterprises and technologically upgrading them are the essence of progress. This may appear to be a slow process, but actually it is quick. Synchronized progress in all sectors is reliable progress, paving the way for proportionate development within industry and transportation and in all other sectors. Production should be made the top priority with capital construction second; tapping potential, renovation and updating should come first, with new construction second. Many of the measures put forward by the State Planning Commission and the State Economic Commission will help to increase production capacity, and so a somewhat more positive production target can be set.

At present, the people want very much to realize the four moderniza-



tions and they are demanding rapid economic development. At the same time, they are asking for an end to further economic ups and downs and a quicker development under stable conditions. Because of this, we should explore various possibilities of a more rapid development.

11. Appropriate investment should also be made in agriculture. Investment in agriculture, forestry, animal husbandry, sideline production and fisheries should be made where it is most needed. The increase in agricultural production this year seems to come from the peasants' motivation to produce more. Past capital construction in agriculture as well as favourable weather have also been important factors. The emphasis on agricultural investment must be properly placed. In areas with low output such as northwest China, efforts should be made to change the present situation. But this goal is attainable only through persistent efforts, and it would be impossible for that part of China to catch up with the provinces south of the Yangtze River in a short period of time.

These are my opinions with regard to this discussion of the plans for 1980 and 1981. I hope our comrades will freely air their opinions so that our plans can become more realistic and a consensus can be reached.

## IT IS IMPORTANT FOR THE PARTY TO REESTABLISH THE SECRETARIAT OF THE CENTRAL COMMITTEE

*February 24, 1980*

Now I should like to speak on two subjects: one concerns the establishment of a Secretariat for the Central Committee; the other concerns the proposed resignation of four comrades, Wang Dongxing, Ji Dengkui, Wu De and Chen Xilian.<sup>201</sup>

It is important for the Party to establish a Secretariat for the Central Committee. It is very urgent and necessary to do so now because most comrades from the Central Committee down to the county Party committees already have white hair. We still have time if we take the initiative and choose competent cadres now. But if we wait, we shall miss our opportunity. In the international communist movement and within the Chinese Communist Party, we have had some bitter lessons concerning succession to positions of leadership. I should not have to mention this, since everyone is aware of it.

Comrade Ye Jianying<sup>172</sup> stated that the Secretariat of the Central Committee should do more work. I think this view is correct, but this should be left for discussion at the next plenary session of the Party Central Committee. The Secretariat should take the lead in all aspects of work concerning the Party, the government, the army and the people; it is a working group. Concerning the list of 13 candidates for the Secretariat,<sup>202</sup> some comrades think that there should be a few more names on the list. I think that it is all right either to increase the number of candidates or to use the original list. It seems to me that the list of candidates proposed at the meeting is appropriate. Their average age is 65 years old. They are not young, and in five years they will be 70. However, if people request that candidates be a little younger, I think that we cannot comply with this for the time being. Therefore, the Secretariat and the whole Party have one important task—to choose qualified young cadres at all levels. Those cadres should have

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Speech at the Fifth Plenary Session of the Eleventh Central Committee of the CPC.

a strong Party spirit, be full of vigour and be experienced. We should also train a contingent of technical cadres for leading bodies at all levels. In this way, we can accomplish modernization.

As for the Secretariat's method of work, I think that it should solve problems collectively. This is what Comrade Ye Jianying calls the method of collective leadership. When some problems need to be solved, we may hold a meeting or a few persons can discuss and decide them. We should not procrastinate in solving problems. The leading comrades should be young and healthy. If I were to conduct shuttle diplomacy as Henry Kissinger<sup>203</sup> did in the Middle East, this would not work. When problems arise, we should solve these collectively. If leading cadres are just initialing documents, [indicating that we have read them] our work and the modernization drive will fail. Of course, in the days to come we will still have to check our names off on some documents, but we must really, conscientiously institute a system of collective leadership. In practising democratic centralism, we must have both democracy and centralism. I think that it is not a bad practice for Party organizations at each level to allow Party members to express their views. If there are opposing viewpoints, people will be more able to act prudently and handle matters more rationally. If people are allowed to argue for different points of view, they can avoid making mistakes. I think it is improper for one person alone to have the say and to be predominant. That is what democracy means. On the other hand, we must have centralism. The minority is subordinate to the majority, and the whole Party to the Central Committee. Otherwise, we shall accomplish nothing. It is no good not to have democracy, but we can't accomplish anything without centralism.

The whole Party must allow for mistakes by the Secretariat or by any comrade in the Secretariat and be mentally prepared for this. Older comrades and others should provide members of the Secretariat with assistance.

I want to make still another proposal, that is, meetings should not wear people out. In the days to come, meetings will be attended by older comrades and by comrades in their thirties and forties. Some of them are capable of working all day long. I cannot do that, and I don't think that young cadres should be busy all day long either. Of course, when urgent matters arise, we must work in this way. However, we cannot always work the entire day. When Comrade Hu Yaobang served as Head of the Organization Department of the CPC Central Committee, I talked with him several times. I said that the Central Committee appointed you to be the Head of its Organization Department rather than sending you to Babaoshan.<sup>186</sup> Each time he came to talk with me, he received many phone calls. This was a serious problem. Therefore, I do not agree that we should be busy all day long. The main

reason why comrade Lin Liming<sup>204</sup> died is that he attended too many meetings. Of course, this is not the only reason. But in short, he attended too many meetings. If there had not been so many meetings, he would have lived longer. In the early 1960s, Commander-in-Chief Zhu De<sup>205</sup> was allowed to leave early, at midnight, when attending late meetings. I think it is good to make such allowances. At that time I once asked him whether he could endure such late meetings. He said that he could, because he was allowed to leave early, at midnight. In the future, we can find some young and strong people who can conduct shuttle diplomacy and ask them to hold meetings with the older comrades.

Now I want to talk about the resignation of the four comrades. I consent to their resignations. Their written self-criticisms show the extent to which they realize their mistakes. If they have not recognized their mistakes thoroughly, we can put the issue on file and do not need to worry about it now. We should examine a cadre from all sides. How do we examine a cadre from all sides? We should be clear what mistakes he has made and what good deeds he has performed. We must take a comprehensive view of the situation within the Party at the time he made these mistakes. Those comrades who have made mistakes should not feel that they are being criticized unjustly. But I think that they do need to reflect on what they have done. What do they need to consider? I think that they should consider this question, that is, whether they could avoid these mistakes. Some comrades, after reading the written self-criticisms of comrades who have made mistakes, are not satisfied. They may criticize the comrades who have made mistakes, and the latter should listen to the criticism by the former. However, I do not agree that we endlessly criticize comrades who have made mistakes. During a period in the past, there was endless criticism and self-criticism at meetings. This resulted in the need to terminate the meetings. The criticism had to be terminated temporarily. I do not agree that we continue endlessly to criticize comrades who have made mistakes. I believe that this never ending criticism is not a good work style for the Party. After the Party accepts the resignation of these comrades, it should assign work to them, and we should make provisions for their future.



# **THE CONDUCT OF THE PARTY IN POWER IS A LIFE OR DEATH ISSUE**

*November 1980 to October 1984*

## **I**

First, the conduct as the Party in power is a life or death issue for the Party. We must never slacken our efforts to rectify Party conduct. Second, the Commission for Discipline Inspection will encounter certain difficulties in its work, but if we can reach a consensus, these difficulties will be overcome. Third, we must seek truth from facts. We should solve problems only after we have verified relevant materials, clarified facts and discussed matters with the persons who made the mistakes.

(Opinions expressed during the Third Forum  
on Implementing Some Guiding Principles for  
Inner-Party Political Activities held by the CPC  
Central Commission for Discipline Inspection  
in November 1980)

## **II**

As to those Party members who have committed serious economic crimes, I think that we should severely punish some of them, or, if necessary, execute the few who have committed the most heinous economic crimes. We must be resolute in dealing with these cases and make this known to the public through newspaper articles. Otherwise, we will

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Excerpts from three talks and two written remarks.

be unable to rectify Party conduct.

(Remarks on the bulletin of January 5, 1982,  
compiled and printed by the CPC Central  
Commission for Discipline Inspection, which  
reported the rampant smuggling activities in  
some areas of Guangdong Province)

### III

At present, a big problem exists with Party conduct and with the general mood of society; that is, what is right and what is wrong are confused. Some comrades fear sticking to principles. They deliberately obscure the distinction between what is right and what is wrong and attempt every means in order not to offend anyone, while those comrades who stick to principles are disdained. Although this situation existed before the “cultural revolution,” it is much more serious now. In the past, under the influence of “left” guiding ideology, we overemphasized the philosophy of struggle; as a consequence, comrades who should not have been criticized were criticized and trifles were often exaggerated as questions of right and wrong. Nowadays, another ideological tendency has surfaced, that is, people are afraid of disagreement, of struggle and of giving offense. In view of this phenomenon, I think it is not enough to address this issue merely for the sake of maintaining Party discipline. We should realize that this touches on the fundamental ideological and organizational improvement of the Party. We must encourage adherence to principles and discrimination of right from wrong. Only in such an atmosphere, created first within the Party, will the Party be able to achieve unity and on that basis have enough combat effectiveness to improve the general mood of society and encourage healthy trends while checking unhealthy ones.

One of the important reasons why the “cultural revolution” occurred was the lack of a democratic system and democratic activities within the Party. In other words, democratic centralism and collective leadership did not exist within the Party. This was the fundamental reason why the “cultural revolution” occurred.

(Excerpt from opinions on a document drafted  
by Comrade Hu Qiaomu on June 24, 1982)

## IV

After the Third Plenary Session of the Eleventh Central Committee,<sup>156</sup> when democratic centralism began to be restored within the Party, a few comrades ventured putting forth their own views. Before this, we used to follow the “principle of one say” and suffered a lot for that. As I said, we do not fear that people might express incorrect views, but that people won’t express any opinions at all. It does not matter if somebody expresses erroneous ideas; what is dangerous is if nobody speaks up at Party meetings at all. The Party organizations should allow comrades to express their opinions; this will help the Party grow stronger. Of course, if you have a divergent viewpoint, you should put it forth at the Party branch or organ to which you belong, in accordance with Party organizational procedures and principles. No matter how many times you express divergent opinions, we will always be glad to listen to you. By doing so, our Party will flourish and will be invincible.

(Excerpt from the speech delivered at the  
Enlarged Meeting of the Political Bureau of the  
CPC Central Committee held on December 31, 1982)

## V

The Commission for Discipline Inspection should study newly occurring situations and adopt new measures correspondingly. No relaxation should be allowed in following Party principles or Party discipline. If Party conduct is not good, the reform cannot be carried out smoothly. The *Communist* Party must always maintain strict discipline; it did this when it worked underground and it must continue to do so now that it has come to power.

(Remarks on the Report on Strengthening the  
Work of Discipline Inspection to Ensure a  
Smooth Economic Restructuring, put forward  
by the Standing Committee of the CPC Central  
Commission for Discipline Inspection on  
October 17, 1984)

## THE ECONOMIC SITUATION AND THE LESSONS WE HAVE LEARNED

*December 16, 1980*

1. If we are short of funds, we can secure loans from foreign countries. This is a new situation following the abandonment of the closed-door policy.

There are more and more countries that are willing to lend us money. It was a correct step to abandon the closed-door policy. In the future, while relying mainly on ourselves, we should seek some low-interest loans from other countries. It is also necessary for us to introduce useful foreign technology.

An analysis of our foreign debts indicates that most countries are willing to sell us machines and equipment. Few of them want to lend us convertible foreign currency,<sup>196</sup> and the interest rate can be as high as 15 per cent. This is a rather high rate, as can be judged by comparison with the annual interest rate offered by pawnshops<sup>206</sup> ( 18 per cent). We would not be able to repay these loans at this interest rate, so it is clear that most countries would not lend us cash.

Obviously, the amount of foreign loans that we can use to buy machines and equipment cannot be determined by our subjective desires alone, we must also take into consideration the whole economic budget.

At present, the international market is a buyers' market. Unless great changes take place in international relations, this favourable condition in international markets will last, to our benefit.

There are also foreign assistance loans. Take for example the low-interest convertible foreign exchange loans granted by the International Monetary Fund<sup>207</sup> and the World Bank.<sup>208</sup> These loans would be beneficial for us. But there are certain requirements for contracting these loans, and we will not be able to secure many such loans. Moreover, we have never obtained any of these loans. If we can secure this type of loan in the future, we must be careful to use the funds only for crucial projects.

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Speech delivered at the Central Working Conference.



We should be soberly aware that foreign capitalists are capitalists. They never do business for profits lower than the average profits which can be had in international markets. Some of their dealings seem to bring them a small profit, but the profit is actually not lower than average if other related earnings are taken into consideration. Capitalists will not do business for profits lower than average. If the profits they made were lower than average, why wouldn't they just put their money in banks and collect guaranteed interest? Why should they take the risk of making investments?

It will be a very long time before we can, as Lenin put it, "use gold to build public lavatories in the streets of some of the largest cities of the world."<sup>209</sup>

The reason why I have warned time and time again that we should be cautious, while at the same time welcoming foreign capitalists, is that some of our cadres are very naive about this matter.

By raising this issue, I am not suggesting that we should not use foreign funds. My intent is to sound the alarm for those cadres who do not have a very clear understanding of this matter.

I should like to repeat that the use of foreign funds and the introduction of modern foreign technology are an important strategy, but we must not act in haste.

## 2. The economic situation is gratifying.

Presently, we are suffering neither from the situation in effect after the "gold yuan"<sup>210</sup> was issued during the Kuomintang rule nor from the situation preceding the unification of our financial and economic work and the stabilization of prices, which occurred shortly after liberation.<sup>211</sup> I should say that the current economic situation is a gratifying one, rarely experienced in the days following the founding of the People's Republic.

Nonetheless, we must also acknowledge the negative aspects of the current situation. Except for commodities under state control, the prices of many commodities are rising, which adversely affects the livelihood of the people.

If we do not put an end to rising prices, the people will become very dissatisfied.

An unstable economy leads to an unstable political situation.

## 3. Economic restructuring has played an unprecedented positive role and has helped greatly to improve the economic situation.

The living conditions in rural areas have improved and the markets are brisk. All this constitutes an auspicious turn of events, rarely seen over the past 20 years or more.

But there are also defects. Localities are carrying out unplanned, redun-

dant construction, i.e., smaller factories taking business away from large ones, backward factories squeezing out more advanced ones, and unnecessary new factories are being built when older ones already exist.

The central authorities are adopting measures to correct these defects.

4. It is helpful to act in accordance with economic laws. Nevertheless, what is more important in our country is to have a planned economy. Therefore, state intervention in many respects will be necessary for a certain period of time.

The purchasing prices for grain are higher than the selling prices, so the state should offer subsidies to make up the difference.

Domestic rents are so low that enough money is generated only for maintenance purposes, and sometimes it does not even offset maintenance expenses.

Because of this, the state offers subsidies totalling over 20 billion yuan annually.

From a micro-economic perspective, this is irrational and it seems that we are not following economic laws, but our country is implementing a system of low salaries, and if the state did not offer these subsidies, the salaries would have to be raised to a great extent.

Which of these is better? I think that for now it is better for us to utilize the method of state subsidies and low salaries. If the state does not offer subsidies, but raises prices and salaries by a large margin, the economy will become chaotic.

Looking at the results ensuing from our current method, we can perceive that the method has its defects, but it is generally in conformity with economic laws.

5. Prices of state and collective enterprise products should be frozen for at least half a year. In the meantime, we must study economic problems and formulate preliminary solutions. This is also a form of state intervention. It may seem as if we are not acting in accordance with economic laws, but actually we are.

6. Central finance and local finance.

Over the next few years, central and local government financing must be cut to a great extent. Local governments should lend surplus funds to the central government.

Any surplus in local financing should be frozen, or else the tendency to invest in capital construction and to spend money randomly cannot be checked and central government financing will not be able to achieve a balance. We shall see what results from freezing the surplus for a few years. If the central government suffers a deficit, it will be forced to overdraw

money from banks. This means that the government will have to issue more currency.

No government departments, institutions, mass organizations, army units or enterprises should be allowed to use their surplus from the previous year. If they have to use it, they must get prior approval. This means centralism. It is no good if there is no centralism in a country like ours. If there is no centralism, there will be chaos and we will not be able to achieve reform.

The facts indicate that we must have centralism. This is because the ratio of central financing to local financing has changed. In 1953, shortly after liberation, central financing accounted for up to 70 to 80 per cent of the country's financial strength, while local financing accounted for a very small portion. Currently, central financing has greatly shrunk and local financing has greatly increased. Because of this, we have decided to freeze any surplus at the local level and practise centralism this year.

We must carry out reform, but we must proceed cautiously. This is because our reform is complicated and we must not act impetuously. It is true that reform depends on theoretical research and on economic statistics and prediction. More importantly, we should start with reform in selected areas and then always evaluate our experience. In other words, we should "cross the river cautiously." In the beginning it is necessary to advance slowly.

But by this I do not mean that we should not carry out reform. What I mean is that reform should facilitate economic readjustment, which will in turn assist the success of the reform.

At this time we should re-establish the good reputation of our financial and trade departments.

Financial and commercial departments have quick access to information and are highly responsive to conditions.

Through these departments, we can perceive the general situation.

7. We should act in the interest of the people according to our capacity.

The ultimate aim of economic development is to improve the standard of living for the people.

Strengthening national defence is also designed to improve standard of living for the people.

Because we have to act in accordance with our capacity, there is much that we cannot do for the people all at once. For this reason it is inappropriate and unnecessary for us to publish in newspapers everything that we are doing for the people.

8. No projects should be introduced without consulting the relevant

experts or without consultation between leaders and experts.

Different experts have different opinions. We should take into consideration the opinions of all our experts.

When introducing a project, several hypothetical plans should be formulated and we should select the best one.

We should make no hasty decisions concerning which plan is best.

All projects should be chosen through collective discussion and not by any one person. This should be the rule. Without exception, all organizations from the level of communes up to the Standing Committee of the Central Committee must follow this rule.

9. We should economize in the area of foreign exchanges.

Presently we have a plethora of delegations travelling abroad on inspection tours at government expense. Many of these people go abroad for no other reason than to do sightseeing. Fewer and smaller delegations made up of a few people of outstanding ability and integrity will suffice.

At present, the prices of some Chinese products are dropping in international markets. These reductions are neither normal nor necessary, but they have been agreed to by Chinese provinces, municipalities and departments in return for an increase in foreign trade.

We should be able to increase our exports without having to reduce prices. In a word, "Do not benefit others at the expense of ourselves."

10. We should develop our cash crops. At the same time, we must ensure that grain output gradually increases.

It is necessary to import a certain amount of grain. This is beneficial in many ways and it will further the reform.

We should not develop cash crops at the expense of grain. Grain is of primary importance. Men have to eat and livestock must be fed.

11. We are building a country with a population of 1 billion, of whom 800 million are peasants.

Hong Kong, Singapore, South Korea and other regions do not have the same problem of this large rural population; neither do European countries, the United States or Japan.

We must come to terms with this difficulty. At present, not many of us have a clear understanding of this problem.

12. How can we realize the four modernizations?

We should never again set unrealistic goals such as overtaking the United Kingdom or catching up with the United States within a short period of time.

Our basis for realizing the four modernizations is the following.

Our existing industry constitutes the foundation. On this foundation, we will upgrade existing technology and also import new technology.



Existing technological personnel are the basis of our intellectual force. We have millions of college and university graduates and self-taught technological personnel. They have tempered themselves with 10 to 20 years of experience.

One thing is certain: The technological level of the 1970s and the 1980s depends on these technical mainstays of the 1950s and the 1960s.

It is necessary for people to go abroad to study advanced technology, but there are limitations to the number of people who can be allowed to do this.

To realize the four modernizations, we must rely on the leadership of our Party. Some people say that most of the cadres are “Jacks of all trades.” In my opinion, if we want to realize the four modernizations, we cannot do without these “Jacks-of-all-trades” cadres. We should not belittle them.

It is still a major goal to have younger cadres, to appoint educated and professional people to leading posts, and to institutionalize this practice. We elder cadres should shoulder the responsibility for selecting young cadres with both ability and political integrity.

13. It must be pointed out that the major mistakes made in economic development since the founding of the People’s Republic were “Left” errors. Generally speaking, the situation was better before 1957. After 1958, we began to make serious “Left” errors.

We paid a great price. We made these errors because of “Left” guiding ideology. Under the erroneous “Left” leadership, it was impossible for us to evaluate our experience.

14. I agree with the readjustment plan worked out by the Financial and Economic Group,<sup>212</sup> led by Comrade Zhao Ziyang.<sup>213</sup>

Readjustment means that we will curtail some of our construction projects and make necessary cutbacks in certain areas.

We should not shrink from the work of this sober and sound readjustment.

Some may complain: “This will waste three or more years.” From the period of the Opium War, China wasted over one hundred years, during which it should have been engaged in economic development. The current readjustment will not be a waste of time. What would be a serious waste of time would be not to carry out this readjustment.

Because this will be a sober and sound readjustment, we shall stand firm and continue to make steady progress.

I hope you comrades will discuss the 14 points which I have just presented because various opinions will ensure that we derive safer and more rational measures.

**SEVERAL OPINIONS ON THE DRAFTS OF THE  
RESOLUTION ON CERTAIN QUESTIONS  
CONCERNING THE HISTORY OF  
OUR PARTY SINCE THE FOUNDING OF THE  
PEOPLE'S REPUBLIC OF CHINA**

*March 1981*

I

Mistakes made in the work of our Party during the 32 years since the founding of the People's Republic must be accurately documented. The conclusions we draw should conform to the realities and should be arrived at after careful consideration. That is, after repeated deliberation, we should draw appropriate conclusions which will endure the test of time.

I agree with Comrade [Deng] Xiaoping's<sup>192</sup> proposal that the Resolution should be general rather than specific. With this principle as our guide, achievements should be recorded as achievements, and mistakes as mistakes. If the mistakes are serious, they should be described as serious; if they are minor ones, they should be described as minor. Distinctions should be made case by case.

II

In drafting the Resolution, we should, according to Comrade Xiaoping's suggestion, affirm comrade Mao Zedong's historical role and uphold and develop Mao Zedong Thought. To this end, there is a need to include Comrade Mao Zedong's contributions during the 60 years since the founding of our Party as well as the contributions of Mao Zedong Thought. In this

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Excerpts from four talks with Comrade Deng Liqun.

way, people will be able to gain a very clear understanding of this issue by reading the Resolution. I therefore suggest that a few paragraphs reviewing the 28 years of Party history before the founding of the People's Republic be added to the Resolution. If we review the whole history of the Party, both before and after liberation, and give a clear account of Comrade Mao Zedong's role at critical times during those 60 years, we shall be able to outline his contributions more thoroughly. In addition, we shall have more comprehensive grounds for establishing Comrade Mao Zedong's historical role and upholding and developing Mao Zedong Thought. In this way, it will be more convincing to state that Comrade Mao Zedong's achievements are primary, while his mistakes are secondary, and that Mao Zedong Thought has led us to victory.

### III

One of Comrade Mao Zedong's inestimable contributions at the Zunyi Meeting<sup>214</sup> to victory in the War of Resistance Against Japan concerns the training of a generation of cadres. This large number of cadres includes ourselves and the "1938 cadres."<sup>215</sup> These people now assume important responsibilities in various positions throughout the country. This is a matter of major importance. This is my first point.

Second, Comrade Mao Zedong correctly handled the Xi'an Incident.<sup>216</sup> He formulated for our Party a series of principles and policies during the War of Resistance Against Japan, including the policy of combining unity with struggle in our relationship with the Kuomintang and the formation of a national anti-Japanese united front, within which our Party maintained its independence and initiative. During this period Comrade Mao Zedong wrote many important works such as "Strategic Issues of the Chinese Revolutionary War," "On Practice," "On Contradiction," "Strategic Issues of the Anti-Japanese Guerrilla War," "On the Protracted War," "The Position of the Communist Party of China in the National War," "Issues of War and Strategy" and "On New Democracy." Nobody else in our Party wrote works of such quality at that time. This was a remarkable achievement.

Third, during the Yan'an Rectification Movement,<sup>159</sup> Comrade Mao Zedong advocated studying the works of Marx and Lenin, especially philosophical writings. This played a great role in raising the ideological level of the entire Party and in achieving unity in our thinking. Comrade Mao Zedong himself told me on three occasions that we should study philosophy.

During the Yan'an period, when I was in poor health for a while, I benefitted greatly from carefully reading the major works and important telegrams of Comrade Mao Zedong. As a result of this study, I gained a deep understanding that we must seek truth from facts if we want to do a good job in our work. The mistakes we have made since the People's Republic was founded resulted from our deviation from the principle of seeking truth from facts. It is of fundamental importance to advocate the study of philosophy in the Party and among cadres and young people. Many of our cadres know nothing about philosophy and they need to improve their way of thinking and their work methodology. Only by mastering Marxist philosophy can we really improve our thinking and work. We should prepare an edition of selected articles including "On Practice," "On Contradiction," "On the Protracted War" and "Issues of War and Strategy." Some of the works of Marx, Engels, Lenin and Stalin should be included, and history should also be studied. Young people have no knowledge of our history, especially the history of the Chinese revolution and the Communist Party of China. We should attend to this matter right away and continue to pay attention to it in the future.

Fourth, a comprehensive collection of Comrade Mao Zedong's theories and policies represents a summation of the lessons learned from the mistakes made by Chen Duxiu,<sup>153</sup> Li Lisan<sup>217</sup> and Wang Ming.<sup>26</sup> These played a decisive role in the victory of the Chinese revolution.

Fifth, Comrade Mao Zedong's prestige in the Party was established over the long period of revolutionary struggle. That is why people still trusted him, remembering his achievements, even when he made mistakes and at a time when many veteran cadres were being persecuted severely. The older generation's support for Comrade Mao Zedong is genuine.

#### IV

Credit should also be given for international support. Our Party was founded with the help of the Communist International,<sup>218</sup> which also played a positive role following the founding of our Party. During the War of Resistance Against Japan, the Soviet Union provided aid to China and sent troops to defeat the Kwantung Army.<sup>219</sup> Without the defeat of the Kwantung Army, victory in the anti-Japanese war would have been delayed for at least several years and we could not have arrived in the Northeast earlier than we did, which would have made it extremely difficult for us to first achieve the complete liberation of the Northeast. There were also the 156 projects<sup>181</sup> in



the First Five-Year Plan.<sup>28</sup> That was true aid, representing the friendship of the working class and other people in the Soviet Union. Past assistance like this should be recorded in the Resolution factually. By making correct judgments on these historical issues, we shall prove once again that the Chinese Communist Party is fair.

## TRAINING ARTISTS, WRITING PLAYS AND FOLLOWING A CORRECT PATH

*April 5, 1981*

Training artists, writing plays, following a correct path and preserving and developing Pingtan theatre (storytelling and ballad singing in Suzhou dialect—Tr.)—these should be our primary goals. Making money should be secondary.

Pingtan art cannot be preserved and developed unless we follow a correct path. We should utilize healthy Pingtan art to combat unhealthy trends in art.

We should also train Pingtan artists so we can produce more Pingtan plays. We do not necessarily require that a dozen artists be trained all at once. It will be good if we can have three to five. Then we can gradually increase the number of artists. In the past, artists tried every means to study their art. If one wants to be an artist, one must concentrate on studying the art form. Talent is derived from one's diligence. At the same time, there should also be competition.

Pingtan plays can be adapted from novels, films and dramas. I quite agree with Comrade Qiu Xiaopeng.<sup>220</sup> In adapting Pingtan plays, we must not only stress the story.<sup>221</sup> We should also create *guanzi*.<sup>222</sup> To this end, the plots of the original works can be rearranged if necessary. Only plays with suspense hold the interest of the audience.

We should depend on artists who are experienced in performance to write new Pingtan plays.

Pingtan art should be acceptable to our youth. This does not mean that Pingtan artists should try to accommodate themselves to young people. Instead, they should attempt to enhance young people's sense of appreciation. Through their effort to meet the needs of the youth, artists can refine their artistic skills, train young artists and raise the quality of Pingtan art.

In writing new plays and giving performances, we need to improve

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Talk with leading comrades of Shanghai Pingtan Balladry Troupe.

Pingtán art through making changes in outmoded methods. But in doing this, we should discard regressive practices and take a correct path. Of course, if there are some things in those practices which can be utilized, we can adopt these selectively.

We should utilize healthy art to combat unhealthy art; the art form should provide guidance for the audience and enhance their sense of appreciation. We should retain the top performers in order to preserve and raise the level of Pingtán art. If we train artists, write good plays and follow a correct path, Pingtán art can be rejuvenated.

## **EDITING CLASSICAL LITERATURE IS A MAJOR TASK REQUIRED FOR PASSING ON THE CULTURAL LEGACY OF THE MOTHERLAND**

*April 1981*

First, editing Chinese classical literature so we may pass on the precious cultural legacy of our motherland is an important task that has much significance for future generations. In our schools great attention is paid to science and engineering because of the need to develop the national economy, but people studying science and engineering should also study the cultural traditions of China. In the future, while maintaining the level of education in science and engineering at universities, we must strengthen education in liberal arts. Starting from primary school, students should study the ancient Chinese texts.

According to the Zhonghua Book Company, China has over 80,000 ancient texts. Beijing University Library estimates that there are 120,000. At this time, about 2,000 of these have been edited and published, which is far from enough.

Second, if we want to edit ancient books in such a way as to make them intelligible to more people, it will be insufficient merely to punctuate, annotate and collate these texts and conduct exegetical studies.<sup>223</sup> They must be translated into modern diction so that they will be comprehensible to most of the people who can read newspapers. Young people will then be able to read the modern translations; if they find these interesting, they will want to read more. A careful selection should be made and a catalogue prepared of a limited number of ancient books to be translated—we should not bite off more than we can chew.

Third, for the purpose of editing ancient books, a leading group which

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Main points of a talk on editing classical literature which, with the approval of the meeting held on September 10, 1981 by the Secretariat of the CPC Central Committee, was distributed as a document of the CPC Central Committee.



will function for several decades should be formed to maintain a stable core work force. At present the only people capable of independently editing ancient books are around 60 years old; they will be 70 in ten years and will be unable to keep up with this work. By that time the people who are now 50 will have become competent enough to take over while those who are now 40 will have become the core staff and will lead this work after they have gained another 20 years of experience.

Those wishing to do this work should have a solid academic foundation as well as a personal interest in the work. Comrade Li Yimang<sup>224</sup> has expressed his willingness to take up this work. We should consider placing him in charge and at the same time we should form a planning group of editing and publishing ancient books,<sup>225</sup> to be directly under the State Council.

Fourth, this planning group should draw up a 30-year editing and publishing plan. In the first ten years, a solid foundation should be laid and the people who are willing to undertake this work should be organized. Later, this work force can be gradually expanded. The programme can be formulated as a series of plans, like those for the national economy. The first ten years can be divided into two five-year plans, with the second plan formulated on the basis of the first.

Fifth, measures should be taken to protect and restore singular texts and rare books.<sup>226</sup> We need to establish security measures in libraries. Every means should be utilized to recover the ancient books and materials which were dispersed abroad or to obtain copies. At the same time, we should systematically make reproductions of singular copies and rare books.

Sixth, we should rely on institutions of higher education to do the editing work. Research institutes should be established at qualified universities. The ancient literature major in the liberal arts at some universities—for example the classical literature major in the Chinese Department of Beijing University—should be appropriately expanded.

At present, many specialists in the field of editing ancient texts are working at jobs inappropriate to their expertise. As many of these people as possible should be recalled and assigned to various institutions to do this work. Some of these experts, now widely dispersed, can be transferred to the Zhonghua Book Company or to other special publishing houses, while others can be assigned specific editing tasks.

Seventh, to carry out this work successfully, money will have to be spent despite the country's present financial difficulties. Budgetary estimates should be worked out for supporting this undertaking. Funds for this undertaking should be used to cover various expenses, chiefly those of editing and printing, but also to include those for offices and living quarters.

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Favourable working and living conditions should be created for the specialists.

Editing China's ancient texts is a major task which will require about 100 years to accomplish. I hope we can now begin this work seriously by forming a leading group, formulating a programme and implementing the necessary measures.

## **PROMOTING AND TRAINING YOUNG AND MIDDLE-AGED CADRES IS OUR URGENT TASK**

*May 8, 1981*

1. Most of the chief leading comrades in provincial and prefectural Party committees are over 60 years old, and not a few of them have passed 70. The same is true of the leading comrades in the ministries and commissions of the government. Most of them became cadres during the Great Revolution, the Agrarian Revolutionary War or the War of Resistance Against Japan. Most of the chief leading comrades in county Party committees are around 50.

Assuming tremendous responsibilities, these cadres work hard day and night at the forefront of the Party, the government and the army. Obviously, carrying on the leadership in a large country like ours with a population of nearly 1 billion is burdensome for them. They are no longer able to work such long hours, but they are still required to continue working despite their poor health. As a result, they have to be hospitalized from time to time. More and more of them are dying from this constant overwork, and seldom does a day pass without news of memorial meetings.

2. Since the restoration of the Secretariat at the Fifth Plenary Session of the Eleventh Central Committee,<sup>227</sup> the work load for the Political Bureau and its Standing Committee had been lightened. However, comrades in the Secretariat are all over 60 years old, and they are very busy with their routine work day and night. It will not be long before the Secretariat finds it hard to continue in this manner.

3. Since the Third Plenary Session of the Eleventh Central Committee,<sup>156</sup> at which the Central Committee decided to promote young and middle-aged cadres to leading posts at all levels, we have done some work in this regard. But generally speaking, not much has been achieved because

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This article was printed and distributed at the Enlarged Meeting of the Political Bureau of the CPC Central Committee and the Sixth Plenary Session of the Eleventh Central Committee held in June 1981.

of different views on this issue. This is how things stand at present.

4. We have two alternatives to choose from:

One is to continue to ignore this situation in which there are not enough younger cadres in the Party to replace the older ones and to take no resolute measures to change it. In this case, the inevitable result will be that within a short period of time, when there will be no trained young and middle-aged cadres to replace the veteran ones who are over 60, and the latter will fall ill and die one after another owing to overwork. In this case, a number of incompetent cadres will have to be hastily promoted to positions of leadership. This is not the correct alternative for us to choose because it will be detrimental to the cause of the Party.

The other alternative is to start right now to train thousands upon thousands of young and middle-aged cadres of both political integrity and professional competence, and then promote them to leadership positions at all levels so that they can gain experience. The veteran cadres should help and guide them and pass on their experience so that the younger cadres will become a strong reserve force for Party and government work at all levels and will be prepared to fill high positions at any time. This alternative is the most beneficial one for us and we should adopt it.

5. I know that it is the desire of veteran cadres to promote young and middle-aged cadres so that there will be worthy successors working for the cause of the Party. However, I should also say that many veteran cadres are not keenly aware of the pressing need to train young and middle-aged cadres and are always complaining that the latter have this or that type of shortcoming and are inexperienced. These cadres place no trust in them. This is partly due to the fact that the young people who were promoted to high positions during the “cultural revolution” were like firebrands with horns. The Party has learned a bitter lesson from these promotions.

It should be made clear that the young and middle-aged cadres that we wish to promote are not firebrands with horns on their heads but are people both of political integrity and professional competence.

6. Are there a large number of young and middle-aged cadres within the Party whom we can promote? We must recognize that there are indeed a large number of young and middle-aged cadres of both political integrity and professional competence within the Party. The problem is that we do not promote and train them.

7. Some people feel that young and middle-aged cadres are too inexperienced. As the saying goes, “Downy lips make thoughtless slips.” Certainly, they do not have such experience as the veteran cadres do, but this is natural. And here I should like to ask: Where does experience come from? Where



else if not from practical work? If we place fine young and middle-aged cadres in positions of leadership and allow them to shoulder heavy responsibilities, they will become mature cadres after having been tempered for three, five, or ten years at most.

Let's review our own past. Hadn't we veteran cadres already assumed important responsibilities when we were still in our twenties and thirties? All the veteran cadres underwent tempering in their youth and gradually became mature in middle and old age. One's ability is not innate but is developed through applying oneself.

8. We should acknowledge another aspect of being young or middle-aged cadres. These people are full of vigour and have more strong points than we did when we were promoted to leadership positions. Most of them have professional know-how and many have advanced specialized knowledge. Of course, they do have weaknesses and are immature, but this is common among the young and the middle-aged.

9. The cadres we should promote and train should not only be those who are around 50 years of age, but we should include those who are in their thirties and forties, and these people should account for a large percentage of the total. After they have been tempered through assuming positions of leadership at all levels for up to ten years or so, they will constitute a great reserve force of high-ranking cadres.

The Organization Department of the Central Committee should establish a bureau in charge of the affairs of young cadres. The staff of this bureau should consist of outstanding young people who are familiar with the affairs of young cadres.

10. As a matter of course, the Party's organization departments should pay special attention to promoting and training a large number of young and middle-aged cadres, but leading cadres from the grass-roots level up to the central level, on their part, should also make concerted efforts to plunge themselves into this endeavour.

In order to avoid promoting the wrong people and to be able to examine young and middle-aged cadres at work, Party, government, army and mass organizations should establish auxiliary working bodies at all levels, such as general offices, secretariats and research offices manned with assistant Party secretaries, deputy secretary-generals, assistant ministers and deputies or directors and their assistants (the army should do the same, but in such a way as to accord with its unique conditions). Young and middle-aged cadres should be sent to work in these bodies where they will have the opportunity to involve themselves in all fields of endeavour and learn about the problems that have arisen in the work. All questions and proposals that are to be

submitted to the Party committee at a higher level should first be discussed and studied by the young and middle-aged cadres working in the auxiliary bodies and also by those at higher levels, and these cadres should suggest some alternatives and working methods for the Party committee to consider.

To this end, it is necessary for the general office, secretariat and research office to organize working teams in various areas or departments. These working teams can be led by cadres of about 60 years of age and composed of a large number of cadres who are in the prime of their lives.

Only after a huge contingent of such cadres has been formed—cadres who are placed in positions to do investigations, study problems and put forward proposals—is it possible to lighten the work load of Party committees at all levels and train a large number of young and middle-aged cadres.

To train and utilize large numbers of young and middle-aged cadres at all levels should become the rule. The purpose is not only to make up for the shortage of cadres caused by the ten years of domestic chaos, but also to train and select cadres for the long term.

This system is especially important at the central, provincial and municipal levels.

11. The question of promoting and training young and middle-aged cadres inevitably involves our attitude toward intellectuals. During the ten years of domestic turmoil, intellectuals were reduced to “the stinking ninth category.”<sup>228</sup> Although this view has been repudiated, the Party’s policy of recruiting Party members and promoting cadres from among intellectuals is far from being carried out. We must recognize that although the four modernizations cannot be realized without the participation of veteran cadres, it will also be absolutely impossible to build a modern new China if we do not recruit large numbers of intellectuals into the ranks of the cadres of the Party. As things stand now, the door of the Party is often closed to intellectuals who ask to join. Some applied for Party membership over a period of many years but did not live to see this wish fulfilled during their lifetimes and were admitted only posthumously after having made contributions. This state of affairs must be changed without fail.

The Party should again decide to recruit large numbers of intellectuals of political integrity and professional competence.

The Organization Department of the Central Committee should establish a bureau in charge of technical cadres.

12. Veteran cadres are an invaluable asset to our Party. We should cherish them and ensure that they will fulfil their task of helping and guiding young and middle-aged cadres and of passing on to them their experience. This is both the need of the Party and the wish of the veteran cadres

themselves.

The cadres who joined in the Great Revolution, the Agrarian Revolutionary War and the War of Resistance Against Japan have experienced untold hardships. After they resign from positions of leadership or retire, political activities such as reading documents, hearing reports and attending discussions on certain important issues should be guaranteed for them. In matters of material benefits such as housing, medical care and transportation, allowances should be made for their needs and they should receive preferential treatment. This should become a Party policy. Veteran cadres, for their part, should demonstrate understanding for the difficulties that may arise in the course of implementing this policy.

It is hoped that all veteran cadres who are to resign from leading posts or retire will maintain their lofty aspirations, placing the cause of the Party and the state above everything else. They should gladly make way for large numbers of young and middle-aged cadres, allowing them now to shoulder the heavy load, offering them suggestions and assisting them whenever needed.

It is the responsibility of veteran cadres to do so for the revolutionary cause.

I am sure that they will accomplish this task, because this is the wish of the veteran cadres who have devoted themselves to the revolutionary cause for decades and because it is also the need of the revolutionary cause.

## **WE SHOULD PROMOTE THOUSANDS UPON THOUSANDS OF YOUNG AND MIDDLE-AGED CADRES**

*July 2, 1981*

At present, there is a serious shortage of young and middle-aged cadres. Hardly a day passes without reports on the deaths of veteran cadres. In Beijing and other parts of the country, there are often several memorial meetings a day, at which we have been presenting wreaths. Moreover, at both the ministries and the departments at lower levels, whenever meetings are held, although quite a few people including ministers, vice-ministers, leaders and their assistants assemble at the table, few of them are actually able to work. This situation must be changed.

We raised the issue of promoting young cadres a long time ago. The document<sup>229</sup> I read was prepared under these circumstances: On May 8, 1981, when I was taking a vacation in Hangzhou, it occurred to me that this was really a major issue, so I wrote an article about training young and middle-aged cadres. After I returned from the vacation, I sent a copy to Comrade [Hu] Yaobang<sup>230</sup> and another copy to Comrade [Deng] Xiaoping.<sup>192</sup> Comrade [Deng] Xiaoping informed me that the issue concerning veteran cadres had not been properly resolved. Therefore, later on, six or seven comrades from the Organization Department of the Central Committee and the General Political Department and I held a forum on June 8 and prepared a summary.<sup>231</sup>

Now I should like to speak on the issue of promoting young and middle-aged cadres and making proper arrangements for the retirement of veteran cadres. The above-mentioned document contains ideas on this issue, but I shall now stress the following points.

First, it is a fact that we lack young and middle-aged cadres. The number of veteran cadres who go on working despite illness and who become sick or

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Speech at a forum attended by the secretaries of the Party committees of provinces, autonomous regions and the municipalities directly under the Central Government.



die of illness is increasing day by day. We have two choices: One is to ignore this situation. If we do this, many of our veteran cadres will not be able to survive. This will be detrimental to the Party. A veteran cadre at such an advanced age can die quickly if he gets seriously ill. Many comrades claim that they are in good health and can continue working eight hours a day. It is easy to make this claim. As a matter of fact, they might be able to hold out for one to three weeks, but not any longer. Although many veteran comrades have reddish and plump faces, their organs have deteriorated. I feel that our veteran cadres are not cognizant of the urgent need to promote young and middle-aged cadres. If we are compelled to promote unsuitable people to leading posts after the veteran cadres come down with illnesses, this will seriously harm the Party. We should instead make the other choice, that is, to immediately promote and train a large number of young and middle-aged cadres. The Party must do this now. Some veteran cadres have no objections to utilizing young and middle-aged cadres, but they are unclear about the urgency. This is a problem.

Second, this idea of promoting young and middle-aged cadres is vulnerable to disagreement and skepticism. Why have some people been held back for so long? There must have been a reason. I think there will be less disagreement if we promote cadres around age 50, but this does not mean that there will not be any disagreement. I saw a list of ministers in the State Council. The Minister of Electric Power Industry is Li Peng.<sup>232</sup> He was a small child when we were in Yan'an. He is the son of Li Shuoxun.<sup>233</sup> He went to the Soviet Union to study electrical engineering and worked at Xiaofengman<sup>234</sup> when he returned to China. I saw him once when I visited that place. On the first list submitted by the Organization Department of the Central Committee Li Peng was not included. But on the second list, Li Peng was included. This addition should be attributed to Comrade Liu Lanbo.<sup>235</sup> Liu argued that we should promote Li Peng. Why? Because he was young and was an expert in electrical engineering. Comrade Liu informed me about this matter and asked me to attend to it. Some disagreed that we should promote Li Peng, even though he was 52, specialized in electrical engineering and had worked in electric power departments for over 20 years since liberation. This is why I said that perhaps we would have less disagreement about the promotion of people who are about 50, but that it was unlikely that we would experience no disagreement at all.

There will necessarily be disagreement and skepticism about promoting cadres around the age of 40. People say that they are too inexperienced. By too inexperienced they mean that those cadres have no seniority. We have only one minister, Hao Jianxiu,<sup>236</sup> who is 45 and was a model worker in the

1950s. Because of this, she was sent to college. It is a pity that we have promoted only one such cadre. You can undoubtedly see that there is much disagreement over the promotion of cadres around 40 years of age.

There will be much more skepticism and disagreement if we promote cadres under 40. Why did the document especially stress the need to promote cadres under 40? This is because these cadres are in their prime. When the Fifth Plenary Session of the Eleventh Central Committee<sup>227</sup> established the Secretariat, an American reporter by the name of Roderick noted that although the leaders of the Secretariat were strong, they were not young, because these leaders were around 70 to 80 years old. I learned from *Reference News* that in the United States a head of an office under the Carter<sup>237</sup> administration was only 32 years old and that a head of an office under the Reagan<sup>238</sup> administration was 40. Are foreigners wiser than Chinese? I do not think so. That is why I am once again stressing the need to promote cadres under 40. If we promote a total of 10,000 cadres, the majority, or even over 70 per cent of them, should be around 40. The reasons for us to promote cadres under 40 are as follows: First, they are in their prime. Second, we can train them intentionally. They do not have much experience at present, but after three, five or ten years of training the best among them can be selected. Third, there are many professionally competent people under 40. I have read materials from which I know that during negotiations with foreigners, those who refuted the foreigners by recognizing inferior or defective foreign products were generally cadres around age 40. This shows that we have people who are trained and qualified. Fourth, only those under 40 really know how young people behaved during the initial period of the “cultural revolution.” We cannot identify most of the leaders of the Red Guards who were supported by Jiang Qing during the initial period of the “cultural revolution.” We only know about Nie Yuanzi<sup>239</sup> and Kuai Dafu<sup>240</sup> and are unfamiliar with other leaders. Who would be able to recognize them then? Only those who were themselves Red Guards at that time. Those “Conservatives” and “Bystanders” know who maltreated our veteran cadres during that period. Currently, one problem in promoting cadres is ignorance of the biographies of the people who were young during the “cultural revolution.” I am not well acquainted even with the cadres who are around 50 years old, let alone those under 40. Although I served as head of the Organization Department of the Central Committee, I am acquainted only with the cadres over 60. At present, the overwhelming majority of the ministers and the first secretaries of provincial Party committees are in their sixties.

Third, the idea of promoting cadres level by level is correct. Comrade [Deng] Xiaoping stated that it was necessary to promote cadres level by level.

We must act accordingly. Some measures I proposed also conform to this idea. Only a few cadres can be promoted more than one level at a time. I think that those who have been promoted level by level have a solid foundation and are capable in an all-round way. I heard that Comrade Song Renqiong<sup>241</sup> held a telephone conference with the secretaries of the provincial and municipal Party committees. He was informed that in some places university graduates are sent to work in communes for a period of time and are then promoted level by level to county Party committees, prefectural Party committees and finally to provincial Party committees. I think this is a good method.

Fourth, in my opinion, none of the key members who were engaged in factional activities or those who indulged in beating, smashing or looting should be promoted to leadership positions. But they should be allowed to engage in ordinary work. Comrades, we should not judge them by their present good behaviour. They are probably behaving themselves at present because the veterans are still around. They have to do so if they want to seize power later. But when the political climate is favourable to them, and especially if there is a disturbance in the Party, these people will become tremendous forces for stirring up trouble. If we promote some of them, they will be able to collaborate with each other and fan the flames of disorder. They regret that they did not get rid of the veterans who are still in power and wish that they could have persecuted them to death at that time. Many of the people engaging in factional and rebellious activities in those days were just following the general trend. But none of the key activists should be promoted. We should not be soft-hearted in this regard because these people will be very capable of causing trouble if the present political situation changes. When might the political climate be favourable for them? After we, including Comrade Hu Yaobang, have gone to see Marx. By that time, memorial meetings will have been held for most of us present here. Do you remember what Wang Hongwen<sup>242</sup> said? (Comrade Deng Xiaoping interrupted, "When Wang visited Shanghai and Hangzhou in 1975, the first remark he made was 'let's wait for ten years and see!' His words shook us.") Therefore, no such people should be promoted to leading posts. But we can assign them ordinary work so that they can earn a living.

Fifth, we should be very prudent in selecting young and middle-aged people with writing ability. On the one hand, we must train people with writing ability because the Party cannot achieve anything without such people. On the other hand, we must train people who have not only writing skills but also political integrity. People who specialize in writing make up only a small proportion of the young and middle-aged cadres to be trained.



Our Party's first Resolution on Certain Questions Concerning the History of the Party<sup>243</sup> was drafted by Mao Zedong and other leading comrades of the Central Committee with the help of Comrade Hu Qiaomu<sup>244</sup>. The second Resolution was also drafted by Comrade Hu. It is hard to find a person like him. This is why we must pay special attention to selecting people with writing skills.

Sixth, we must promote thousands upon thousands of young and middle-aged cadres. When I was in Hangzhou, I told Comrade Hu Yaobang that we should promote at least ten thousand. Why? First, would one or two hundred promotions be sufficient for over twenty provinces, autonomous regions and municipalities, as well as the ministries and commissions of the Central Government? No, this would not. Our work requires thousands of cadres. Second, only by promoting thousands upon thousands of fine cadres who are carefully chosen can we ensure the stable succession of young cadres to the older ones. And third, if we promote thousands upon thousands of good cadres to leading positions, then anyone stirring up trouble will be unable to cause much disturbance.

Seventh, the Organization Department of the Central Committee should establish a special organ to manage affairs concerning young and middle-aged cadres. Such an organ will be very important. The organization departments at all levels, from the Central Committee to provinces, autonomous regions, municipalities, prefectures and counties, should establish such organizations. Who should be the leaders? Those who are around 60 years of age. The personnel should be young and middle-aged cadres with good Party spirit who are familiar with the backgrounds of cadres under 40. We have ferreted out the person who persecuted Commander Peng<sup>245</sup> to death, but when we asked his work unit about his background, the unit replied that they did not know. Therefore, it is vital to establish an organ to manage affairs concerning young and middle-aged cadres.

Eighth, the organization departments should also establish special bodies for managing affairs concerning technical cadres. Prior to establishment, we must study how to organize these and how they should function. We should also keep records on the technical cadres.

Ninth, we must make proper arrangements for the retirement of veteran cadres so as to set their minds at rest. We are prepared to spend some money on this, which will require the construction of sanatoriums for cadres in some locations and the establishment of cultural and recreational centres for retired cadres in others. If retired veteran cadres have difficulty paying medical expenses, the state can assist them financially. We can afford this expense of only several hundred million yuan a year. The Organization Department



of the Central Committee stated that retired veteran cadres will continue to receive the same amount of money they received as salary before retirement. In addition, each year the state will spend two to three hundred yuan more for a retired veteran's medical care, transportation, subscriptions for books and newspapers and entertainment. We could spend a little bit more than this to ensure proper arrangements for retired veteran cadres. Of course, apart from spending money on veteran cadres, ideological work should also be done among them. Many things can be done without spending money. For example, we can reserve the best seats for them when they see a play and we can invite them to sit in the rostrum when there is a meeting.

I have discussed here mainly the issue of promoting young and middle-aged cadres and have mentioned only one point concerning the retirement of veteran cadres.

## **SOME COMMENTS ON THE TRIAL OF THE “TWO CASES”**

*November 19, 1981*

The “cultural revolution,” which began in 1966, was a domestic upheaval. But, given the historical conditions, it was also a political struggle. This political struggle was exploited by a handful of careerists and conspirators. Many cadres, Party members and non-party individuals were persecuted during this struggle. From an overall point of view, the “cultural revolution” should be seen as a political struggle. Hence, except for a handful of careerists and conspirators who must be dealt with separately, the other people involved should be dealt from a viewpoint of political struggle. We must not handle this political struggle from a partial or temporal viewpoint. Instead, we must adopt an overall point of view, starting from the Party’s vital and long-term interests. In dealing with this political struggle, we should take into account the given historical conditions. What is more important, our handling of this should facilitate all Party members for several generations to come in understanding correct methods for dealing with inner-Party struggle. This is a prerequisite in handling this political struggle.

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Talk on questions concerning the trial of the Lin Biao and Jiang Qing counter-revolutionary cliques.

## SEVERAL IMPORTANT PRINCIPLES TO BE IMPLEMENTED IN ECONOMIC DEVELOPMENT

*December 22, 1981*

1. Rural economy constitutes an important part of the national economy. In developing the rural economy, we should keep planned economy primary, supplemented by regulation by market forces.

I have to re-emphasize this point because it seems to some people that planning is no longer needed following the introduction of various kinds of responsibility systems, including the system of setting output quotas based on individual households. In fact, planning is still necessary.

The following are proposals which were carried in a bulletin.

First, it is a must for the peasants in suburbs to grow vegetables. I think this is a kind of state plan.

Second, quotas should be set as to how many pigs will be purchased by the state each year. This is also a kind of plan.

Third, tobacco should be planted on no more than 533,000 hectares of land, a proposal raised by Comrade Wan Li.<sup>246</sup> This was a long-standing problem which arose in 1951. At that time, the price parity of grain to cotton fluctuated. When this was favorable for cotton, the Ministry of Agriculture held a meeting and proposed expanding the area for cotton growing to 9.33 million hectares. I opposed this proposal by stating that if we did that, we would get into hot water and would not have enough grain for food. Finally, it was decided at that meeting to plant cotton on no more than 5.33 million hectares and we are still maintaining that level.

Fourth, the area for planting grain should not be further reduced. This proposal was offered by Comrade Zhao Ziyang.<sup>212</sup> I agree with him. If we reduce it, we would not have enough grain to consume.

Fifth, the output of cash crops should be increased by increasing per unit area yield and by using land which is not being used to grow grain, an idea

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Speech at a meeting attended by the first secretaries of Party committees of provinces, autonomous regions and municipalities directly under the Central Government.

which was also put forth by Zhao Ziyang.

Peasants should not be allowed to engage in production for individual gain for the time being.

In short, regulation by market forces should only be allowed within the scope of state plans.

Otherwise, the so-called “freedom” for the 800 million peasants will frustrate the state plans. In the final analysis, the economic activities of peasants must be conducted within the scope permitted by the state plans. This is the only way to protect the long-term interests of the peasants and ensure the economic development of the state.

This is a major policy which benefits the peasants and the state.

2. Another major policy which should be implemented for economic development is to first guarantee food for our one billion people and thereafter to carry out socialist construction.

However, if we eat everything and consume everything, there will be no future for China.

We must see to it that people have enough food and also that the state will be able to afford to carry out economic construction. To this end, we cannot afford to eat too well nor too poorly. If we are eating too well, we will be unable to carry out our economic construction.

Since we have only a certain amount of money, it is impossible for us to greatly improve the people’s living conditions. Therefore, we should ensure that the people have enough food first and, second, we should carry out economic construction.

3. Special economic zones have been established on a trial basis in Shenzhen, Zhuhai and Shantou in Guangdong Province and in Xiamen in Fujian Province (Neither Guangdong nor Fujian provinces are entirely special economic zones).<sup>247</sup> These four special economic zones are sufficient; we should not establish any more.

Currently, in many places, processing of raw materials for foreign clients is being carried out and joint ventures with both Chinese and foreign investment have been established. In my opinion, additional special economic zones should not be added. We must see to it that the processing of raw materials for foreign clients should not affect the sale of our own products.

Experience gained in the special economic zones of Guangdong and Fujian provinces and in foreign trade in various provinces should be reviewed. It seems to me that this matter has not been taken seriously.

Special economic zones should not be established in Jiangsu Province.

We should not only be affirming the advantages in having special economic zones but also be aware of the unfavourable conditions they will



bring about. For example, in the special economic zones, both RMB and foreign currency are in circulation, which is not beneficial for the RMB, for the legs of the RMB are shorter than those of foreign currency.<sup>248</sup>

Jiangsu and Zhejiang provinces used to be places where speculation ran rampant and speculators knew very well how to speculate.

The primary task for us now is to review that experience.

4. In developing the economy we should take the whole country and the overall situation into account and act in accordance with state plans.

Goods and materials should be delivered according to state plans.

The country's development must be carried out in an order of importance and urgency, in accordance with state plans.

That is all I want to say today. By the way, according to the newspapers our favourable balance of trade stands at four billion US dollars. The proprietary rights to this amount belong to the Bank of China. Various localities and departments have the right to use these funds; three billion is at the disposal of localities and the other one billion is at the disposal of various departments. These must obtain approval from the central authorities before using any of those funds. Actually, this amount of foreign exchange is a circulating fund which the Central Government has begun to use. It is my hope that by the end of 1985 the favourable balance of trade will rise to 12 billion US dollars. It is very necessary for our country to have that much foreign currency as circulating fund. What I have just said is in the name of the central authorities. Some comrades stated that Comrade Zhao Ziyang is now speaking on behalf of the central authorities, since coming to Beijing. This is true because Zhao is taking charge of the work of the whole country. This is similar to my case. I am from Shanghai, but I have been working in the Central Government since the founding of the People's Republic. What I say conforms to the interests of the country as a whole.

## IMPROVING THE WORK OF ECONOMIC PLANNING

*January 25, 1982*

This whole year's work depends on a good start in the spring. Today I am going to talk about how we are going to keep planned economy primary, supplemented by regulation by market forces. I offered my opinions on this issue at a forum attended by the first secretaries of the Party committees of municipalities, autonomous regions and provinces.<sup>249</sup> Even following the introduction of the system of responsibility in agricultural production, the principle of planned economy as primary should still be followed without exception. Peasants should plant vegetables in suburbs and raise pigs according to plan, and we should not increase acreage for tobacco or decrease that for grain. The standard of living of the people must be raised, yet, the state has only so much money. Therefore, we should draw up a plan for fund distribution. We should consider to what extent the people's living conditions can be improved. As I said before, we must take the overall situation into consideration, that is, we should adhere to the policy of feeding the people and then building the country. If we eat everything and consume everything, there will be no future for China. If the state can afford to carry out production and construction after satisfying the people's need for food, the future of the country is hopeful. We must adhere to this policy.

From the experience of the Capital Iron and Steel Company, we can see that all enterprises should work out their own operation plans. Only when the source of raw materials and marketing of products are well planned can an enterprise operate soundly. In the past, however, we paid no attention to planning, having no idea from where the raw materials would come or whether our products were in demand. There was no planning either for production or for sale. In contrast, there is elaborate planning in capitalist enterprises in this regard.

The Economic Commission should organize production well. From the viewpoint of division of labour, the enterprise, the Economic Commission

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Talk with the leading comrades of the State Planning Commission.

and the Planning Commission each have their own duties. The Planning Commission is responsible for working out overall state plans, while the Economic Commission takes charge of coordinating all the departments. Some tasks can be assigned to enterprises, but the tasks should be concrete and within their capabilities. Personnel in the Planning Commission should particularly concentrate on planning general programmes. As I said in the past, in the old days there used to be a particular type of shopkeeper, who, with skullcap on head and water pipe in hand,<sup>250</sup> specialized in deciding “strategic matters.” Nowadays in our economic organs such matters are seldom considered. We do need such strategists. The Planning Commission must administer these affairs, working out plans in order of urgency and importance.

The first book I wrote concerning economic problems<sup>251</sup> contains articles written from 1956 to 1962. Another book<sup>252</sup> compiled recently by the Research Department of the Secretariat of the CPC Central Committee contains my articles from 1949 to 1956. Because I could go ahead boldly with my work during that period, many of my opinions were fully expressed in that book. New views emerged as we encountered new problems. After I came to Beijing from northeast China, some comrades asked me how we should conduct our work. I answered them by saying that we should first settle in and then try to accomplish something. From 1949 to 1956, our Party waged three “campaigns” on the economic front: We unified various sectors of the economy and stabilized prices; we practised state monopoly on purchase and marketing; and we gradually accomplished the socialist transformation.

We should pay close attention to two faulty practices: one, some plans are not precise enough; and the other, some departments, local governments and enterprises do not resolutely carry out the state plan. At present, most of the funds rest with local governments and enterprises. If there is a need, the state can issue a certain amount of state bonds each year or collect taxes from localities to replenish central finance.

Nowadays, planning is no longer popular. To address this issue, I invited a few leaders from the Planning Commission to discuss it. It will not do for the Planning Commission just to talk big. They must adopt a down-to-earth attitude in doing things. We should never forget the lessons from the past, for example when the Planning Commission was determining the growth rate as was required, setting it as high as 10 or even 20 per cent annually. This absolutely won’t do! Experience drawn over so many years informs us that we can develop the economy rapidly if we take a down-to-earth approach to our work and proceed step by step. More haste, less speed. The work of the

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Planning Commission is really a hard bone to chew! Last December I expressed my opinions on four points.<sup>249</sup> The main purpose was to emphasize a planned economy. Now every province wants to set up special economic zones.<sup>247</sup> If they are allowed to do so, foreign capitalists as well as domestic speculators at home will come out boldly and engage in speculation and profiteering. Therefore, we should not do things this way. The primary issue facing special economic zones is to review their own experience in their work.



## **IMPROVING THE WORKING AND LIVING CONDITIONS OF MIDDLE-AGED INTELLECTUALS**

*July 1, 1982*

These two documents<sup>253</sup> claim that although middle-aged intellectuals bear a heavy burden in their life and work, their wages are low and many of them are experiencing deteriorating health. I think that this is a major state issue and that we must be determined to settle it during this year and in the following year and cannot stick to the conventional ways of solving problems.

The Organization Department of the CPC Central Committee learned that there are 4.8 million graduates of technical secondary schools who are 35 to 50 years old. If their wages are to be raised in the next two years, then this year we need to appropriate 700 to 800 million yuan. In the future we shall be spending 1.2 to 1.3 billion yuan on this every year. Our capital construction needs amount to over 50 billion yuan each year. Why not use 1 billion yuan or a little more to help solve this problem for these middle-aged intellectuals? They were trained in China after liberation and are the backbone of all fields of endeavour today and will remain so for years to come. We depend mainly on these people in our work. Improving their working and living conditions should be regarded as a capital construction “project,” and even a basic one. The intellectuals working in enterprises and in scientific research, education and management departments are the most valuable asset of any industrialized country. One of the important reasons for the rapid post-war economic recovery in Japan and West Germany is that the two countries preserved a contingent of backbone staff of this type and gave full play to their role. Therefore, it is worthwhile to spend money on middle-aged intellectuals. It is like using the best steel to make the blade of a knife. We should make it clear to people that mental work is different from

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Letter to all comrades on the Standing Committee of the Political Bureau of the CPC Central Committee.

manual labour and that the wages of educated intellectual workers should be a little higher than those of manual labourers. This conforms to the laws governing the development of a socialist economy and to the people's long-term interests. Otherwise, we will not be able to develop science and technology, nor will productivity increase.

I propose that the Secretariat of the Central Committee be urged to handle this matter.

## SPEECH AT THE TWELFTH NATIONAL CONGRESS OF THE COMMUNIST PARTY OF CHINA

*September 6, 1982*

I fully agree with the report delivered at this Congress<sup>254</sup> by Comrade Hu Yaobang on behalf of the Central Committee, with the draft of the revised Party Constitution, with the opening speech made by Comrade Deng Xiaoping and with the speech made by Comrade Ye Jianying.<sup>172</sup>

After the smashing of the Gang of Four, our Party set right its course at the Third Plenary Session of its Eleventh Central Committee<sup>156</sup> and in the Fourth,<sup>255</sup> Fifth<sup>227</sup> and Sixth Plenary Sessions<sup>256</sup> it redirected the nation's political life and socialist development onto the correct path for sound growth.

However, we must be soberly aware that for various reasons the ranks of our Party's cadres have for a long time and to varying degrees faced the problem of aging. There are at present not enough young cadres able to take over from the veteran cadres. Unless this issue is resolved soon and satisfactorily, the communist cause may suffer a setback in China. All comrades, particularly the old comrades, should realize the gravity and urgency of this problem.

The satisfactory solution to the problem of the smooth succession of young cadres to old ones is, therefore, an important task facing the whole Party.

The first step toward solving this problem is for the elderly cadres to retire successively from the leading bodies.

During the Party's recent organizational reform of the Party central organs and the State Council, some elderly comrades vacated their "front line" leading posts, and at the recent Seventh Plenary Session of the Eleventh Central Committee,<sup>257</sup> a large number of elderly comrades expressed their wish to retire from the Central Committee and other leading posts. This shows that our elderly cadres have a strong sense of responsibility to the

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First carried in the *People's Daily* on September 7, 1982.

revolution.

If elderly cadres withdraw from the “front line,” does this mean that they have come to the end of their revolutionary career? No, it does not. Whether they withdraw to the second line to do whatever work they can or completely retire, they should support the young and middle-aged cadres in their work and take on the task of helping and guiding the latter, enabling the latter to benefit from their years of experience. Only when the veteran cadres have fulfilled this task can it be said that they have done their best for the Party and the revolutionary cause.

Besides, since there is now a gap between the elder and the young cadres, the elder ones cannot leave the leading bodies all at once. As dictated by the actual situation, some elder comrades will have to remain at “front line” posts for the time being. Even so, they should not devote most of their energy to the heavy day-to-day work, as before, but instead should help and guide the younger people, passing on their knowledge to them, advising them and checking to see that major issues are handled correctly.

To effect the succession of new cadres to elderly ones, young and middle-aged cadres should be promoted to leading bodies at all levels.

In connection with this issue, I would like to make two points.

One is that not just a few dozen or a few hundred, but thousands, tens of thousands must be promoted.

Why? Because this is the only way in which there will be enough people to take over the work of the large numbers of elderly comrades who will be retiring from leading bodies at various levels, in which we can have a greater choice in seeking truly reliable successors, and in which it will be possible to prevent the trouble-makers who were promoted to positions of leadership during the “cultural revolution” from stirring up serious disturbances in future.

In order to promote tens of thousands of young and middle-aged cadres, we must take a developmental view and not judge them by their present inexperience alone. To be sure, the young and middle-aged cadres do not have the rich working experience of the older cadres. But we should ask ourselves this question: How does one gain experience? The answer is that experience comes only from practical work. Placed in posts of responsibility and given a heavy load, the young and middle-aged cadres will certainly gain experience and gradually mature in three to five years, or at most in eight to ten years. Moreover, we can create additional “assistant” posts. This will help to reduce the resistance to the promotion of young and middle-aged cadres to full leadership positions. At the same time, it will provide time for the Party organization to judge their actual leadership and organizational



abilities before they are formally appointed as leaders.

The other point I want to make on the question of promoting young and middle-aged cadres is that none of the following three types of people should be promoted: people who rose to prominence during the “cultural revolution” by following Lin Biao, Jiang Qing and the like in “rebellion”; people who are seriously factionalist in their ideas; or people who indulged in beating, smashing and looting during the “cultural revolution.” Any of these people who have already been promoted must be resolutely removed from the leading bodies.

Why shouldn’t we promote any of these people? If they are recruited into leading bodies, when they consider the political climate favorable in the years to come, they will resurface to make trouble and again harm the nation and the people.

Of course, we should realize that only a minority of the young and middle-aged people who were involved in the wrongdoing of the “cultural revolution” belong to these categories, the majority merely drifted along. As regards the latter, so long as they have really acknowledged their mistakes, made a clean break with the three types mentioned above and given a good account of themselves ever since the smashing of the Gang of Four, the Party should trust and utilize them while continuing to observe and guide them in the course of their work.

We must also note that there are plenty of young and middle-aged people who behaved well or at least properly during the “cultural revolution.” It is mainly from among these that we should select cadres for promotion.

Apart from the three types mentioned above, there are two other types of people whom we should not promote to leading posts. I am referring to people who are opposed to the political line formulated since the Third Plenary Session of the Eleventh Central Committee as well as to people who have seriously violated the law or discipline in economic and other spheres.

In short, we should, on the one hand, be bold in quickly promoting young and middle-aged cadres, but on the other hand, we should strictly insist on political criteria. As to political integrity and professional competence, we should pay more attention to the former. In other words, we must be certain that we are promoting people who have a strong Party spirit, are honest and upright, and are courageous enough to stick to principle.

I am convinced that so long as we solve the problem of succession of new cadres to elderly ones, there will be no lack of successors to carry on the cause of our Party.

## **SOME QUESTIONS CONCERNING ATTAINMENT OF THE STRATEGIC OBJECTIVES SET BY THE PARTY'S TWELFTH NATIONAL CONGRESS**

*December 2, 1982*

The Party's Twelfth National Congress<sup>254</sup> pointed out that in the next twenty years, while steadily working for better economic results, we should strive to quadruple the gross annual industrial and agricultural output. It also pointed out that, in order to realize this objective, we must take two steps. In the first decade, we should aim mainly at laying a solid foundation and creating the necessary conditions for a vigorous economic development in the second decade. The period of the Sixth Five-Year Plan<sup>258</sup> covers the first five years of the first decade during which we should not pursue a too rapid economic development. Just as Comrade Zhao Ziyang said in his report,<sup>259</sup> the main feature of the Sixth Five-Year Plan is its emphasis on improving economic results. So long as we work hard during the period of the Sixth and the Seventh five-year plans, bring into better balance various sectors and complete the preliminary work on the numerous major construction projects, the growth rate in the second decade is bound to be higher and we will be able to achieve the goal of quadrupling the gross annual industrial and agricultural output. If we rush for quick results by trying to achieve that which should be done in the second decade and undertake unauthorized construction projects during the period of the Sixth and the Seventh five-year plans, chaos may re-occur in our economic development and the task of quadrupling the gross annual industrial and agricultural output will not be fulfilled.

In order to create the necessary conditions for faster development in the second decade, it is necessary for the central authorities to muster an appropriate amount of funds to strengthen the weak links in the national economy such as energy, transportation, science and education and to ensure

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Main points of a talk with members of the Shanghai delegation attending the Fifth Session of the Fifth National People's Congress.

the completion of key construction projects. It is revolution and construction on a large scale which will serve the interests of the whole. Of course, minor revolution and minor construction projects by the localities are also needed, but we must focus mainly on large scale revolution and construction. This is about subordination of the parts to the whole. If we try to accomplish all things at once with no sense of priorities, the state will not be able to afford to finance everything. Comrade Zhao Ziyang stated in his report that all large and medium capital construction projects are subject to examination and approval by the State Planning Commission, that all large and medium-sized construction projects outside the state plan are subject to overall balancing by the State Planning Commission before being submitted to the State Council for examination and approval and that no localities should make investments in fixed assets outside the state plan without prior approval by the appropriate higher authorities. If they do, they will be punished for having violated discipline in financial and economic work. All of what Zhao said is very important. This is the only way to ensure the success of great revolution and construction. Only when we are successful in great revolution and great construction can the success of minor revolution and construction by localities be ensured.

One of the important tasks during the Sixth Five-Year Plan is to carry out technical transformation in existing enterprises, which I think is a new way to develop industry. In the past, when talking about expanding production, some people tended to think solely of building new factories. I don't think this is a good way. We should raise standards concerning the depreciation of fixed assets of enterprises, speed up the renewal of equipment, import advanced technology and carry out technical transformation. In most cases, we will benefit more from doing this than from building additional factories. There are many old enterprises in Shanghai and so we should pay special attention to this matter there. Currently, some textile enterprises and other light industries are sending their employees to Shanghai to learn advanced technology. These people then return to their own localities to engage in production and then sell their products in Shanghai markets, in competition with Shanghai. This is a good thing and we should not prevent it by administrative means. Shanghai should take up this challenge. What Shanghai should do is to develop its technology, improve the quality of its products and reduce production costs. Moreover, we need large enterprises which can manufacture various kinds of products of many varieties and designs so as to meet the needs of various markets.

There are some enterprises which are run by persons, who, like pampered youngsters, have no notion of the efficient use of time or how to increase

profits. I am sure these ideas can be gradually fostered. In recent years we have done a better job than in the past, and even better than before the “cultural revolution.” We cannot do economic work well without utilizing concepts concerning profits and the use of time. In one sense, time is speed, and the way to achieve the fastest growth rate is to develop in a planned and proportional way.

Since the Third Plenary Session of the Eleventh Central Committee,<sup>156</sup> we have followed the policy of invigorating the economy and have achieved striking results. There are plenty of consumer goods in department stores and the seller’s market is changing into a buyer’s market. With money in hand, people can now buy what they want to buy. We haven’t experienced such a good situation for a long time. We should continue to implement the policy of invigorating the economy and give play to the role of market forces. But, in our effort to invigorate the economy, we must guard against the tendency towards deviating from state plans. The relationship of the invigoration of the economy to state plans is just like that of a bird and its cage. We can not hold the bird in hand; if we do so, it will die. We must allow it to fly, but only in a cage. Without the cage, it will fly away. If we liken invigoration of the economy to a bird, then the cage corresponds to the state plans. Of course, the size of the cage should be appropriate for the bird. Although we follow state plans, we do not have to limit certain economic activities to one region or one province; these can be carried out in other regions, provinces, countries and continents. As we would often have to adjust the size of the cage to suit the bird, we have to continue reformulating our five-year plans. We have to utilize a cage, that is to say, both invigoration of the economy and allowance for regulation by market forces should play their role as prescribed by the state plan, and we must not deviate from the format of state plans.



## **A TALK WITH CHILDREN OF REVOLUTIONARY MARTYRS**

*February 13, 1983*

Today is Spring Festival. One Chinese saying goes: “On festive occasions more than ever one thinks of one’s dear ones far away.” Your fathers<sup>260</sup> are like family members to our Party and our nation. Therefore, we invite you here to celebrate the Spring Festival together with us.

Your fathers all joined the Party earlier than I did, when it was first formed. They were my seniors and some of them gave me direct guidance. They all died young; some were arrested and murdered by the enemy; others died on the battlefield. New China was founded through the sacrifice of their lives and the lives of thousands upon thousands of revolutionary martyrs. They played a part in all of our victories. We, the living, have not forgotten them, and never will. I believe our future generations will not forget them either.

You are the descendants of the revolution and the sons and daughters of the Party. You should, like your fathers, always proceed from the interests of the Party and not hesitate to sacrifice yourselves to safeguard the Party’s interests. You are now working for the Party and the people in different professions, as scientific and technical personnel, journalists, teachers and cadres. I am very pleased to see that you have grown healthily. The present situation is good for the Party and for the country. You should, together with the comrades around you, cherish and develop this situation and continue to dedicate your efforts to making our country more prosperous and powerful.

**MAKING LEADING PARTY AND GOVERNMENT  
CADRES A MORE REVOLUTIONARY, YOUNGER,  
BETTER EDUCATED AND MORE  
PROFESSIONALLY COMPETENT CONTINGENT**

*February 25, 1983*

I have read the talks you gave at the Second National Conference on Party School Work<sup>261</sup> and I am in agreement with these.

It is an urgent task for Party schools to shape leading Party and government cadres into a more revolutionary, younger, better educated and more professionally competent contingent so that they can meet the requirements of the four modernizations drive. I hope that this conference will concentrate on discussing ways to accomplish this task. Party school students should study the tenets of Marxism -Leninism and Mao Zedong Thought and the Party's principles and policies as the main curriculum. At the same time they should also acquire some knowledge of modern science and culture and the necessary expertise to enable them to improve in the art of leadership and in capability.

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Letter to Comrades Wang Zhen and Jiang Nanxiang. At that time, the former was President of the Party School of the CPC and the latter was Vice-President.

## THE MODERNIZATION DRIVE AND THE TRAINING OF SUCCESSORS

*June 30, 1983*

I should like to make a few points.

First, the living conditions of the people have improved considerably over the past few years and should be further improved in the years to come. However, the rate of improvement in the people's standard of living cannot exceed the growth in production. There should be definitive limits to wages, bonuses and subsidies for peasants.

I still want to repeat what I have said before: First, feed the people and then build the country. If we eat and use up everything, there will be no hope for China. But if we conserve the resources necessary to build the economy, there will be hope for the country.

Second, we must establish priorities for our economic development. Because we have only limited financial and material resources, if we launch all projects simultaneously without considering the order of importance and urgency, we shall be vying among ourselves, which will affect our economic development as a whole and land us in a passive position.

What are our priorities? It seems to me that agriculture, energy, communications, the construction and upgrading of some key enterprises, the development of science, technology and education, the prevention and treatment of environmental pollution and the improvement of our intellectuals' living conditions are the priorities. We are proceeding from the overall and long-term interests of the whole nation in considering these priorities. Only the Central Government can determine priorities with a view to overall and long-term interests and through overall balancing.

After priorities are determined, we should mobilize the whole Party and all the people to concentrate financial and material resources on these priorities. Over the past few years, some local governments and departments launched capital construction projects indiscriminately, raised prices arbitrar-

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Speech at a working conference of the Central Committee.

ily, imposed arbitrary quotas and issued excessive bonuses, thereby scattering our funds. After paying regular expenses for administration, for scientific research, for culture and education and for national defence, there will not be much left for the Central Government with which to construct large projects such as nuclear power stations, the Three Gorges Project, ports or railways. Therefore, I would like you high-ranking officials from all parts of the country to take more money from your pockets and persuade workers and cadres in enterprises and departments and peasants to make concerted efforts to support key construction projects in consideration of our overall and long-term interests. Otherwise, there will be no hope for the four modernizations.

Third, within the 20 years from the beginning of the Sixth Five-Year Plan<sup>258</sup> period to the year 2000, we shall quadruple the gross annual value of China's industrial and agricultural output.<sup>262</sup> This goal was set at the Twelfth National Congress of the Party, and the whole Party must strive to achieve this goal. We must succeed in accomplishing the goal. We shall do this in two stages over a period of 20 years. In the first decade, we lay a foundation for the second. The pace of development might not be very rapid. Moreover, we must proceed with caution. Otherwise, it will be impossible to achieve our goal.

Fourth, while we are carrying out revolution and economic development enthusiastically, we must bear in mind the need to train successors. At present, the second echelon of our Party has been basically formed and a third echelon has also become a contingent. The whole Party should strive to strengthen the third echelon in the years to come.

Since the Fifth Plenary Session of the Eleventh Central Committee<sup>227</sup> decided to re-establish the Secretariat of the Central Committee, the Secretariat has done a great deal of work for the Political Bureau of the Central Committee and it has achieved much. Shortly after the founding of the People's Republic, we initiated agrarian reform<sup>20</sup>, cooperative transformation of agriculture<sup>5</sup> and socialist transformation of capitalist industry and commerce<sup>2</sup>, and we established our industrial base. However, we failed to explore more sound and effective economic systems and ways of operating enterprises. After the Gang of Four was toppled, we gradually instituted various responsibility systems for agricultural production and achieved notable results. At present, industry and commerce are undergoing restructuring and experimentation with various responsibility systems. I am convinced that we will gradually achieve success in these experiments.

However, we should recognize that the comrades in charge of the routine work of the Central Committee are now over 60 years old. The age difference



between those comrades and us who are over 70 is small. In other words, there is not much age difference between the first and the second echelons of our leadership. Therefore, we should lose no time in selecting some fine cadres who are in their fifties, or better yet, in their forties. While we are still alive, we should build the third echelon. Some comrades and kind-hearted foreign friends are worrying that “the three types of people”<sup>263</sup> who followed the Gang of Four will wreak vengeance after we are gone. As long as we have a second echelon as well as a third echelon of leaders, those people will not be able to wreak any vengeance. This is a matter of fundamental importance for the Party and the state. Therefore, veteran comrades should conscientiously and correctly select successors, earnestly assist them, train them, and then vacate their posts for them to fill, “helping them to get on the horse and escorting them for a distance.” There has never been such a practice in the international communist movement. As long as we are alive, we should continue to strive to accomplish this task for the sake of the Party and the state. Otherwise, history will hold us responsible.

## REMARKS ON COMPILING “THE DECISIVE LIAOXI-SHENYANG CAMPAIGN”

*August 9, 1983*

The Liaoxi-Shenyang Campaign<sup>264</sup> was the first of the three major campaigns of the War of Liberation. This victory together with the victories of the People’s Liberation Army on other battlefields brought about a fundamental change in the balance of forces between the enemy and ourselves and laid the foundation for continuous progress in the War of Liberation. For these reasons, it is necessary to compile a book of recollections on that campaign. This book will be important both as a memorial for comrades who fell in the campaign and as educational material for future generations.

However, in compiling this book, not only the chronology of the campaign should be described, but also how the victory was achieved. Up to the end of the Anti-Japanese War, of all the base areas in the country, our Party was weakest in Northeast China. But thereafter in less than three years, the first major battle of the War of Liberation was fought and won there. Such a great change was not brought about by the participants in this battle, its organization, command, or the actual fighting alone; it was also the result of many other factors.

First of all, Red Army troops from the Soviet Union entered the Northeast and defeated the Japanese Kwantung Army.<sup>219</sup> This created favourable conditions for our main forces to move speedily into the region ahead of the Kuomintang and for improving our equipment. At that time, the Communist Party of the Soviet Union, despite their underestimation of our strength and the restrictions of the Yalta Agreement,<sup>265</sup> gave us all-out support. The Northeast has the Soviet Union to the north, Korea to the east. In our fight with the Kuomintang, this was a favourable condition for bringing in supplies and for the transfer and care of the sick and wounded.

Second, this campaign was supported by base areas all over the country. The main forces of the Shandong Military Region, the 3rd Division of the

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A talk to some comrades.

New Fourth Army,<sup>266</sup> the 359th Brigade of the Shaanxi-Gansu-Ningxia Border Region, part of the Chinese People's Anti-Japanese Military and Political College<sup>267</sup> and the Artillery Academy, most or part of the forces of Eastern Hebei, Central Hebei, Shanxi-Suiyuan (now part of Inner Mongolia) and the Hebei-Shandong-Henan Military Regions were successively dispatched to support the Northeast, totaling 100,000 persons. In addition, army cadres for 100 regiments and about 20,000 Party and political cadres, including 20 members or alternate members of the Party Central Committee, were dispatched. These forces, combined with the existing forces of the Northeast Anti-Japanese United Army<sup>268</sup>, laid a solid foundation for the development of our Party and army in the Northeast. To speedily eliminate the enemy in the Northeast, the Northeast Bureau<sup>269</sup> of the CPC Central Committee proposed to the Central Committee that more enemy forces should be pinned down south of the Great Wall in order to prevent them from reinforcing the Northeast. At that time, we were doing well on all battle fronts, really hobbling most of the enemy forces, so that they were not able to move a large force into the Northeast and instead they actually had to withdraw forces. This demonstrated great nationwide support for the Northeast. It can be said that without the support of all the base areas, without the support of the First, Second and Third Field Armies<sup>270</sup> and the North China Field Army, there could not have been a Fourth Field Army,<sup>271</sup> nor a victory on the Northeast battle front.

Third, our regular troops were employed in suppressing bandits. Bandit groups in the Northeast were actually made up of landlords and former military police from the puppet Manchukuo regime.<sup>272</sup> Unless these bandits were thoroughly exterminated, the peasants could not be mobilized, nor could stability be maintained in the rear.

Fourth, we carried out land reform.<sup>273</sup> Only when the poor peasantry were liberated from their wretchedness could our Party establish a firm foothold in the Northeast and could we guarantee our forces a sufficient source of soldiers and food supplies to sustain the fight against the Kuomintang armies which were equipped with American weapons.

Fifth, a stable revolutionary base had been established in the Northeast. The economic foundation in the Northeast liberated area was already more solid than in those areas south of the Great Wall. There were a number of successful grain-producing regions. As the local saying goes, "Hu Hai Ba Bai, not to mention Suihua," and "Jin Fu Hai Gai, not to mention Liaoyang."<sup>274</sup> There was a comprehensive railroad system linking the Northeast to all parts of the country and the Northeast had a number of large, medium-sized and small cities. Furthermore, we swiftly set up a government in the liberated

area, lost no time in restoring production and encouraged the liberated peasants to join our army. We fully mobilized all available manpower and material resources to support the War of Liberation, thus assuring our army of a strong rear and a good supply of material, especially grain, so that the army could expand steadily and maintain high mobility.

Sixth, and most important, the Party Central Committee and Chairman Mao formulated correct policies for the work of the Northeast Bureau of the CPC Central Committee and set up correct operational principles for the Liaoxi-Shenyang Campaign. Suppose we had followed Lin Biao's strategic plan to tie up our main force in a siege on Changchun instead of moving south, and then once Yixian County was taken, to return to Changchun instead of launching an attack on Jinzhou. In that case, the Liaoxi-Shenyang Campaign would not have taken place and the victory in the Northeast could not have been so great nor achieved so rapidly.

To sum up, the part played by the various participants in the campaign as well as the organization and direction of the campaign were all undoubtedly very important for victory. We must not deny the part which Lin Biao played as commander of the Fourth Field Army, but we should not look at this aspect alone; we still need to examine other aspects. Only such a perspective can be comprehensive, and in accord with historical materialism.

Because of all this, changes should be made in the way this book is being compiled. Inclusion of some important historical documents and telegrams might be considered, such as the Central Committee's instructions of December 28, 1945 to the Northeast Bureau<sup>275</sup> and the Northeast Bureau's "July 7 Resolution"<sup>276</sup> in 1946. Memorial articles by army and local cadres could also be included, such as those of army cadres Huang Kecheng, Tan Zheng, Han Xianchu, Cheng Shicai, Peng Jiaqing, He Jinnian and Lü Zhengcao, and those of local cadres such as Zhang Xiushan, Wang Heshou, Fan Shiren, Guo Feng, Zhao Dezun, Zhang Qilong, Jiang Hua, Wang Shoudao, Li Yunchang, Chen Lei, Wang Yizhi and Zhong Ziyun. Comrade Lin Yueqin<sup>277</sup> could be asked to write an article in commemoration of Marshal Luo.<sup>278</sup> In this way, people can learn from this book not only how the decisive Liaoxi-Shenyang campaign was won, but also the various fundamental causes behind the victory.

To do a good job in compiling the book, some old comrades who worked in the Northeast at that time, such as Zhang Xiushan, Wang Shoudao, Ma Hong, Han Xianchu and Liu Zhen, could be invited to take charge of the compilation. The compilation could also be made a project of the Committee for Collecting Materials on Party History, with cooperation from the Liaoxi-Shenyang Campaign Memorial Hall. When the book is completed, it



should be sent to the Central Military Commission and to Comrade [Yang] Shangkun<sup>279</sup> for approval.

One or two years may be required to revise the book. It is worthwhile to spend a little more time on this so this account can be accurately and comprehensively written.

## **SPEECH AT THE SECOND PLENARY SESSION OF THE TWELFTH CENTRAL COMMITTEE OF THE CPC<sup>280</sup>**

*October 12, 1983*

I agree with the Central Committee's decision on rectification of Party organizations and with the speech delivered by Comrade [Deng] Xiaoping.<sup>192</sup> I should like to make a few points.

1. The "cultural revolution" seriously damaged the Party. A number of veteran cadres (including military officers) made mistakes during the "cultural revolution." There are many of them, and all of us know who they are. What is most dangerous is that a number of the "three types of people"<sup>263</sup> have sneaked into our Party.

Following the smashing of the Gang of Four, some of the "three types of people" were identified and dealt with in the exposure-criticism-check campaign. But for various reasons there still exist a large number of these "three types of people," who have lain low along with their "advisers."

During the "cultural revolution," all localities had antagonistic factions and practised factionalism. At present, some leading cadres still practise factionalism when weeding out the "three types of people." They weed out only those in factions they oppose and are reluctant to single out those in the factions they support. This is wrong.

Currently, the "three types of people" and their "advisers" are seemingly very "obedient." Some of our leading cadres think highly of them.

During this rectification of Party organizations we must purge these "three types of people" from the Party. Why? Because they constitute the most destabilizing factor in the Party. They are keeping in touch with each other. If the situation changes in their favour some years hence, they will come forth to stir up trouble.

Weeding out these "three types of people" is only half of the work we must accomplish. The other half and the more important half is to train the 30 to 40 year old young people who are genuine Marxists and to place them

in leadership positions in the Party and in the governments at all levels. As long as we establish a third echelon of cadres for the Party, then these will be the people who will become the successors to the cause of the Party after about ten years' experience and the leadership of our Party will surely remain in the hands of Marxists rather than passing over to the "three types of people." Even if the "three types of people" and their "advisers" continue to lie low, they will not be able to exert much influence.

2. Before our Party became the ruling party of the country, things were quite different from what they are now that our Party is in power. Before the Party came to power, it existed as an underground party, subject to the rule of the enemy. At that time, Party members were in danger of being killed and they did not enjoy material benefits. Party members both in the Soviet areas<sup>281</sup> and in the liberated areas were busy fighting battles and supporting the war; they did not enjoy favourable material conditions. Now that the Party is in power, political power, from the Central Committee to the Party committees at the grass-roots level and from the leadership of enterprises and institutions to production teams, is in the hands of Party members. It is possible that Party members will now abuse this power for personal gain.

Many embezzlers are Party members themselves. Others are able to commit corruption under the protection of Party members.

The great majority of our Party members do not seek personal gain, but Party members who have made mistakes or violated the law by pursuing personal ends are not small in number. According to the Central Commission for Discipline Inspection's statistics on economic criminal cases, since we began to crack down on economic crimes more than 9,000 people have been stripped of their Party membership and disciplinary measures have been taken against over 18,000 people. The two figures total over 27,000, more than double the total number of Party members following the April 12th Incident<sup>282</sup> in 1927.

If we do not severely crack down on those who abuse their power for personal gain and if we do not check this unhealthy tendency by doing our utmost, Party conduct will be corrupted and the Party will lose popular support. Because of this, I once said, "The style of a political party in power determines its very survival."

Currently, when some rural Party members assemble for training, they receive one or two yuan a day in compensation for lost work time in addition to receiving a food allowance. This is a fact, not a fabrication. Before the Party came to power, it would have been inconceivable that Communist Party members who assembled for a few days to receive training would also

receive one or two yuan a day to cover lost work time. In rural areas before liberation, people supported the war by transporting ammunition or carrying wounded soldiers. They received no compensation for their lost work time and often were injured or killed. By comparison, is it reasonable now for Party members to receive compensation for the loss of work time? They should reflect whether or not they meet the criteria for Communist Party membership, which require that Communist Party members should not hesitate even to sacrifice their own lives for communism. In my opinion, none of those who request allowances for training or for attending meetings are qualified to be Communist Party members. In the future, no more allowance should be provided to those assembled for training in compensation for lost work time and all those who request this should be expelled from the Party.

3. We should be fully aware of the problems brought about by reform and opening to the outside world. It is correct to open to the outside world and to make full use of the foreign assets which are useful to us in speeding up China's development. When we began to open to the outside world, we stressed the need to be alert to the negative effects that might ensue. As it stands now, sufficient precautions have not been taken to prevent these negative effects.

When some people look at the skyscrapers and expressways of other countries, they think that China cannot compare, that socialism is not superior to capitalism, and that Marxism no longer works. We should criticize this viewpoint and educate these people. And if those comrades who do ideological work refuse to correct their mistaken ideas, they should be transferred to other jobs.

China is still very poor, but it is a socialist country and our fundamental system is much superior to capitalism. In capitalist countries there are millionaires, but these people obtain their wealth by exploiting labourers. It is an unalterable law that capitalism will inevitably be replaced by communism. The existence of socialist countries under the leadership of the Communist Party is irrefutable evidence that socialism and communism will inevitably replace capitalism. We should be highly confident of that. Let us chant: Long live socialism! Long live communism!



## REUNIFY THE MOTHERLAND IN THE INTEREST OF THE NATION AND THE PEOPLE

*December 25, 1983*

Our views on the reunification of the motherland and talks between the two parties have been clarified in the nine principles proposed by Comrade Ye Jianying<sup>283</sup> and the recent talks between Comrade Deng Xiaoping and Professor Winston L. Y. Yang.<sup>284</sup> These views proceed from the interests of the nation and the people and take into consideration the interests of the Kuomintang, as represented by Mr Chiang Ching-kuo.<sup>285</sup> Although the two sides are quarreling, they adhere to the position of one China and oppose the independence of Taiwan. The two sides have reached a consensus on this point. When the old generation on the mainland is gone, our successors will continue to stick to this position and will persevere in doing so. However, when the old people in Taiwan are gone, I wonder whether their successors will adhere to this position. If they do stick to this position, it is hard to say whether they will be able to do that for a long time. Therefore, while we old people are still alive, we should make plans and be determined to reunify the country as soon as possible. Even if some people strive for the independence of Taiwan after the older ones are gone, it will then not be so easy for them to do so.

As to reunification, the question is how to reunify the country. In our view, we should use one name and one capital in reunifying the country, and in other things the status quo can be maintained. In other words, neither the socialist system on the mainland nor the current system in Taiwan should be enforced to reunify the country. We think that this is the most realistic method to be used. In my view, it is unrealistic to reunify China under the Three People's Principles. The Kuomintang practised the Three People's Principles for dozens of years on the Chinese mainland, but this produced unsatisfactory results. In contrast, after having practised socialism for only 30 years, we solved the problem of food and clothing for a population of 1

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Excerpt from a talk.

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billion and the standard of living has risen significantly. Of course, during these years Taiwan's per capita national income has been higher than that of the Chinese mainland, but Taiwan does not have a population of one billion, of which 800 million are peasants. Because of this, after the country is reunified, the Chinese mainland should continue to practise socialism, and Taiwan can continue to maintain their current system. We have no objection to that.

Meanwhile, we should also be aware that not all countries in the world want to see China reunified. Some people are hanging onto Taiwan and thinking of Taiwan as their "unsinkable aircraft carrier." They will try every means to obstruct and undermine China's reunification. Therefore, we should enhance our vigilance and take all necessary precautions.

## **SPEECH AT THE THIRD PLENARY SESSION OF THE TWELFTH CENTRAL COMMITTEE OF THE CPC<sup>286</sup>**

*October 20, 1984*

Now I should like to speak on three points.

First, the recovery of Hong Kong is a mission bestowed on us by history.

Following the Opium War, the British imperialists forced the Qing government to sign an unequal treaty, according to which Hong Kong was ceded to Britain. Later, through negotiation, the Chinese and British governments stated that China would recover Hong Kong in 1997.<sup>287</sup> This will be a historic event. Of course, it will still be 13 years until we can resume sovereignty over that region. As for its social system, we have stated that it will not be changed for at least 50 years. In this way, Hong Kong can continue to play a role in our four modernizations drive. Facts have shown that the Central Government's policies and measures towards the settlement of the Hong Kong question are entirely correct. The People's Republic of China has accomplished the task entrusted to us by history. We are worthy of the respect of future generations.

Second, reforming the economic structure in a systematic way is an issue of primary importance in China's economic work.

Since the Third Plenary Session of the Party's Eleventh Central Committee,<sup>156</sup> we have achieved great success in rural reform. After a few years' preparation, experiment and practice, we have had marked successes and gained experience in the reform of industry, commerce, finance and planning. I said in 1981 that such a reform was as important as the transformation of capitalist industry and commerce in the 1950s. Why? Because the purpose of the transformation of industry and commerce was to eliminate exploitation, while the purpose of the on-going structural reform is to discard the system whereby "everybody eats from the same big pot." The essence of such an equalitarian system is that those who do not work receive the same benefits as those who work. Dismantling this system will help motivate workers, peasants, intellectuals and cadres to become more

fully involved in the four modernizations drive and in the emancipation of the country's productive forces.

The Decision on the Reform of the Economic Structure to be examined and approved by this session summarizes four main points<sup>288</sup> concerning the characteristics of the reform of the planning system. These points fully conform to China's actual conditions. The scale of the country's economic development is much larger and the situation more complicated than that in the 1950s. Some measures applicable in the 1950s have become unsuitable. Take grain as an example. In the 1950s, if we had acted according to the law of value, the price of rice transported from Sichuan Province to Shanghai would have been higher than the price of rice grown in Shanghai. This, we could not do at that time. Now, the situation is different: We have more grain, and in some places and during some periods we experience difficulties in selling grain. Under such conditions, peasants should be allowed to sell grain on the market at varied prices, provided that they fulfil the state purchase quotas. It will get us nowhere to mechanically apply the measures we adopted in the 1950s. Even in that period, we did our economic work in accordance with China's realities instead of adopting the measures the Soviet Union took.

Over the past few years, the economic development has been smooth and the people's living conditions have improved rapidly. Now is an opportune moment for price reform. However, we must proceed steadily so that peoples' actual earnings do not drop due to price adjustment.

It is necessary to separate the functions and responsibilities of the government from those of enterprises. In this way, enterprises can have more power to make their own decisions while government departments at various levels can be freed from daily routines and will be more able to discuss major issues, pay attention to the overall situation and exercise macro-control over economic development.

The reform of the economic structure will be carried out on a wide scale. A vast number of cadres are not familiar with the work and unpredictable problems may arise. Therefore, we should explore and frequently review experience in our endeavour. It would be a remarkable achievement if we succeed in this reform in five years. In a word, we should act according to the Decision; we should emancipate our minds and seek truth from facts; and we should be active but prudent in carrying out the reform. So long as we do so, we will be successful.

Third, we should work hard to achieve material as well as cultural and ideological progress.

The Decision states that "certain undesirable practices and illegal activ-



ities may emerge because of competition.” It is necessary to mention this point in the document. What are these undesirable things? Examples would be the practices of entertaining guests with lavish dinners, providing them with generous gifts and also the furthering of personal interests or the interests of one’s own group through illegal infringement upon state interests and so forth. In certain locations, people have had the following type of experience: if you entertain guests with only two dishes and a soup, your business will be ruined; if there are four dishes and a soup, your business will be so so; with six dishes and a soup, your business will thrive; and if you provide eight dishes and a soup, you will be able to monopolize the market. It is said that even eight dishes and a soup might not be very effective. Some factories employ two pretty girls around 20 years of age to purchase materials or serve as saleswomen. These girls are able to achieve what male workers cannot. These practices are bound to emerge and are nothing to be surprised about. They emerge because many enterprises have to sell their products on their own and most township enterprises have to purchase raw materials by themselves because the raw materials they need are not included in the state’s plans. However, if we ignore these kinds of practices and fail to conduct the necessary education and management, they are likely to run rampant and corrupt the Party’s style and social conduct. So, in addition to fostering material progress, we must promote cultural and ideological values. So long as we keep sober-minded and alert to negative practices, foster cultural and ideological values, these can be controlled. Ours is a socialist country. We should strive to build socialist civilization materially, culturally and ideologically. This is the orientation which we should always maintain.

## **CHINA AND THE SOVIET UNION HAVE EVERY REASON TO BE FRIENDS**

*December 24, 1984*

Welcome, Comrade Arhipov. I was told that you wished to visit me during your visit to China. I also wanted to meet with you very much. You are our old friend. Comrades Bo Yibo<sup>32</sup> and Yao Yilin<sup>83</sup> who are present here know you very well. China and the Soviet Union closely cooperated with each other in the mapping and implementation of China's First Five-Year Plan<sup>28</sup> in the 1950s. The Chinese government and people have not forgotten and will not forget the assistance the Soviet government and people provided to China both during the revolutionary war and during national construction in peacetime.

China and the Soviet Union have every reason to be friends, and they can achieve that, absolutely. Normalization of relations between our two countries conforms to the fundamental interest of our people as well as the people of other countries. Why is it that relations cannot be normalized at the present time? We think that there are three main obstacles: the occupation of Kampuchea by Vietnam, the Soviet troops stationed along the Sino-Soviet border and in Mongolia, and the Soviet invasion of Afghanistan. These three events took place in the vicinity of China and pose a real threat to Chinese security.

Without the backing of the Soviet Union how could Vietnam, which had suffered from war for 30 to 40 consecutive years, have become anti-Chinese and invade Kampuchea? When Vietnam was fighting France and the United States, China provided Vietnam with enormous assistance in manpower, goods and materials, and financial resources. The weapons and ammunition and the goods and materials China supplied to Vietnam during the latter's war with the United States alone amounted to over US\$ 10 billion. China has not done any injustice to Vietnam. But soon after their victory

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Excerpt from a talk with I. W. Arhipov, the First Vice-Chairman of the Council of Ministers of the Soviet Union.

throughout the country, they began to oppose China by expelling Chinese nationals and opened fire on us. We responded with a counterattack. Of course, our counterattack was only in self-defence; we did not leave any troops in Vietnam.

If we want to normalize relations between China and the Soviet Union, we have to remove the three obstacles I mentioned above. If they cannot be removed all at once, one or two can go first. This is a matter of principle; and we have to insist. I believe that you too want normalized relations, but there will be difficulties if no advances are made towards the removal of these three obstacles. Of course, this does not mean that China and the Soviet Union, two big neighbours, cannot now improve and develop their relations with regard to other issues. During recent years our bilateral trade has developed considerably, and this year it will increase by 36 per cent over last year. In addition, there have been some exchanges in science, technology and culture. Our relations in these fields can be further developed in the future; a lot more can be done in the interest of both sides. I would like to point out here that not everybody in the world today is happy about the greater trade and economic cooperation between China and the Soviet Union. Some people do not want to sell their advanced equipment and technology to us, nor do they want others to sell these to us. Therefore, I hope that the Soviet Union will demonstrate a broader perspective on the question of advanced technology transfer.

I visited the Soviet Union three times in 1935, 1952 and 1959 and know many people there. But I do not know many in your present central leadership. I knew Y.V. Andropov, General Secretary of the Central Committee of the Communist Party of the Soviet Union, but unfortunately he died of illness. We now have three echelons in our leadership. Comrades Ye Jianying,<sup>172</sup> Deng Xiaoping and Li Xiannian and I as well as some other elderly comrades who are 70 or older are in the first echelon. These people are now free from the day-to-day work of the central leadership. They are having a rest while keeping state affairs in mind. The second echelon consists of those around 60 years of age. They are in charge of the day-to-day work of the central leadership. Today I have specially invited Comrade Yao Yilin to meet you because he is one of those who are in charge of state affairs who do most of the work. In addition, we have an echelon comprising talented people in their 40s or 50s. We are tempering these people in different leading posts at all levels so that they will be able to succeed us.

I would like to ask you to pass my regards on to all my Soviet friends.

## THE POWER TO ISSUE CURRENCY AND THE QUESTION OF FOREIGN EXCHANGE RESERVES

*February 18, 1985*

The meeting of provincial governors was a success and helped local comrades acquire a better understanding of the situation as a whole. Now I would like to make a few points.

1. I am in favour of the proposal that the issuance of currency should be done in appropriately controlled amounts. When Comrade Zhao Ziyang<sup>212</sup> discussed this question at the meeting of provincial governors, he said, “It is better to practise austerity than to issue too much currency. It will help us to take the initiative and will put us in an invincible position.” “It is inappropriate to cut the money supply indiscriminatively.” He continued, “We should cut the money supply wherever it is necessary, and do our best to support all that should be supported.” I do not think that the second sentence was necessary because the first sentence carries all the meaning. This is because right now we are not sure what we should support and what we should not support. I think that this money supply should be tightened when necessary.

It has been four months to the day since the Third Plenary Session of the Twelfth Central Committee of the CPC<sup>286</sup> was held. Great changes took place in these four months. At that session I sounded a warning and talked on the following problem: “If you provide eight dishes and a soup, you will be able to monopolize the market.” This is an undesirable phenomenon. There are many undesirable phenomena nowadays, much more so than four months ago. In a word, things are in confusion now. I am in favour of imposing strict control over our affairs. That is to say, if a person is confronted with the danger of death, he will fight to live. This is what an old Chinese saying is about, which is dialectical—placing a person in a hopeless position so that he will make efforts to survive.

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Speech delivered at an Enlarged Meeting of the Political Bureau of the CPC Central Committee.



Comrade Zhao Ziyang said that we should allow discounts on treasury bonds from banks. Discount is a financial and commercial term. I do not think it is feasible to give discounts on treasury bonds at the moment. If we give discounts on the treasury bonds issued this year, will we have to do the same for those issued last year and the year before last? If we do that, this will mean that we would be reissuing the currency we have just withdrawn, which would increase the amount of currency in circulation.

In addition, banks in the old society offered this service: When you put 100 yuan in a bank, the bank would give you ten cheques. You could draw a cheque for, say, 95 yuan and get the money from the bank the same day, leaving actually only five yuan in your account. With the five yuan in your account, you could draw cheques as you pleased, say, for 1,000 or 10,000 yuan, on condition that you put these amounts of money in the bank before the cheques became due. For example, if someone wanted to cash cheques ahead of schedule that would become due on February 20, the bank would not inform the person that you did not have the money, but would say that the cheques were not yet due. So the bank had faith in you. After you deposited the money in the bank on February 19, the bank would pay all your cheques the following day. This was a sign that your credit was good. We should not allow this sort of practice.

At present currency issuance is out of control. Someone must oversee the amount of currency to be issued, and he must be a Premier or a Vice-Premier in charge of economic work. I did the job in the 1950s. I submitted plans for issuing currency to the Standing Committee of the CPC Central Committee. For example, I estimated the amount of the currency to be issued in the last quarter of a year and asked the Central Committee for the power to issue it. If we found that we had planned to issue more currency than necessary, we cut the amount; if less currency was issued than necessary, we issued additional currency, subject to approval by the Central Committee. In short, someone must oversee the amount of currency to be issued, and this should not be decided by the Governor of the bank.

2. Now I want to talk about the question of foreign exchange reserves. How much foreign exchange and gold reserves should we maintain? Many of our comrades have not been clear about this. Some time ago, we had US\$ 12 billion in foreign exchange reserves in addition to several hundred tons of gold. Some comrades thought that this was a lot. I think that \$10-20 billion in foreign exchange reserves is not so much for us. In a large country such as ours, with \$10-20 billion in foreign exchange reserves, we will be empowered to cope with eventualities. From a long-term point of view, we do not think that we have too much foreign exchange, but on the contrary

we have too little. In July and August of last year, some people complained that we had too much foreign exchange to spend. Comrade [Li] Xiannian<sup>114</sup> had a talk with me and I told him that it was better to have foreign exchange than not to have it at all, and that it was better to have a lot rather than a little. Saudi Arabia has \$350 billion in American banks and will draw an annual interest of \$35 billion if calculated at the current rate. If we have \$15 billion, we will draw an annual interest of \$1.5 billion. So far there has been no capitalist country that would lend us \$1.5 billion for a year without hesitation.

The foreign exchange earned by various units constitutes a contribution to the country and must be deposited in the Bank of China. Some, but not much, of the foreign exchange can be put in foreign banks with special permission. The four extended families of Chiang Kai-shek, T.V. Soong, H. H.Kung and Chen Kuo-fu<sup>289</sup> deposited their foreign exchange in the United States. Now the rich people in Taiwan also put their money in banks in other countries instead of in Taiwan for fear that something might happen. Our units should deposit their foreign exchange in the Bank of China; this is their duty, a glorious duty. They should not put their money in foreign banks without having obtained permission to do so.

Currently we should be organizing resources for the production of exports; we must lose no time in doing this. In principle, domestic sales should give way to export. Domestic sales should be cut so as to ensure that more goods are exported for foreign exchange.

In short, on the one hand we should impose control on foreign exchange, but on the other hand we should, in accordance with our plan, prepare goods for export valued at \$27 billion. It is necessary to do a good job in these two areas, otherwise our goal cannot be achieved.

3. I am afraid that the Party's propaganda work is in confusion at the moment. This is particularly true of propaganda through newspapers, radio stations and TV stations. We need to reconsider whether to impose a ceiling on bonuses. The decision on economic restructuring<sup>290</sup> has proposed an all-round and systematic reform. This reform is the goal of the entire economic restructuring; it cannot be entirely be carried out at present, although the newspapers often say it can. The newspapers are mistaken. Since only the prices of pork and the fees for short-distance transport will be readjusted in the price reform this year, and since the wage reform plan has yet to be worked out, how can we say that we are carrying out an all-round and systematic reform? It is incorrect to say that. The Propaganda Department of the CPC Central Committee should view the work of the newspapers, radio stations and TV stations one by one; we cannot afford not to do so.

## **WE SHOULD FOSTER BOTH MATERIAL PROGRESS AND CULTURAL AND IDEOLOGICAL PROGRESS**

*June 29, 1985*

1. The Central Commission for Discipline Inspection of the Communist Party of China held a meeting to exchange experience gained in improving the Party's work style and at that meeting we reviewed our experience in this regard. This is very necessary for further improving the work style of the Party and ensuring smooth progress in economic restructuring.

2. We should make it known to all Party members that what we are working for is the socialist cause and that our ultimate aim is to realize communism. This point is very important. Under the leadership of the Party Central Committee, the economic construction we are carrying out is socialist economic construction and the economic restructuring which is underway is socialist economic restructuring. All Party members should constantly bear in mind that the four modernizations we are striving for are socialist modernizations and that the cause we are working for is a socialist cause.

If we foster socialist material progress and do not socialist cultural and ideological progress at the same time, we will deviate from the correct path. If institutions or leading cadres forget or slacken their efforts to build socialist civilization culturally and ideologically, they will not be able to do a good job in building socialist civilization materially, and they will even depart from socialist and communist ideals. This is very dangerous.

3. In the fourth quarter of last year, while the evil winds were blowing, many Party members got involved, among whom were some veteran Party members and leading cadres. We should be vigilant about this matter.

We should recognize that the key to fostering socialist cultural and ideological progress is for the ruling party to demonstrate a good style of

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Written speech delivered at the National Conference on Exchanging Experience in Improving the Party's Style of Work and carried in the *People's Daily* on July 1, 1985.

work. To this end, we should strengthen education in Party spirit among Party members and raise their political level.

4. It is the task of the entire Party to foster socialist cultural and ideological progress, for which the Party's discipline inspection organs assume great responsibility. Comrades should resolutely check any unhealthy tendencies, rectify the Party's work style, strengthen Party spirit among all Party members and help ensure socialist material progress through cultural and ideological progress so that the socialist economic development and the socialist economic restructuring will continue to advance in the correct direction.

What I want to say can be summed up in two sentences. First, it is my hope that comrades in the discipline inspection organs and all Party members will keep in mind that, while building a society with high material standards, we should also pay attention to building a society with high cultural and ideological values. Second, in our effort to foster cultural and ideological progress, the most important thing we should do is to improve the work style of our Party as the political party in power, cultivate Party spirit and firmly preserve the purity of communism. We should wage a resolute struggle against words and deeds which run counter to the communist ideal.



## **SPEECH AT A NATIONAL CONFERENCE OF THE COMMUNIST PARTY OF CHINA<sup>291</sup>**

*September 23, 1985*

I support the Central Committee's proposals for furthering the succession of younger cadres to the positions of older cadres in central leading organs, the Seventh Five-Year Plan, as well as the speeches delivered by members of the Standing Committee of the Political Bureau. Now let me discuss the following issues.

1. We must have an echelon system for the succession for cadres.

To promote tens of thousands of young and middle-aged people to leading posts in order to reinforce the leading bodies at all levels is an important task that our Party has stressed repeatedly over the past few years.

After repeated examination, a number of outstanding young and middle-aged cadres have been elected to the central and local leading organs.

This system ensures that there will always be cadres to carry on the cause of the Party from generation to generation. We have already achieved successes in this respect and must continue to do a good job.

2. We must continue to pay close attention to grain production.

Thanks to the rural contract responsibility system, with remuneration linked to output, agricultural production has increased, peasants' incomes have risen and their standard of living has improved.

There are some rural households whose annual incomes have reached 10,000 yuan or more from agricultural and sideline occupations, but there are very few. For some time now the media has exaggerated the number of "ten-thousand-yuan households." Actually there are not so many. Our media's reports are divorced from reality.

Some peasants are no longer interested in growing grain. We must address this problem.

Comrade Lü Dong<sup>292</sup> recently stated in his "Report on Some Problems in the Present Economic Work," which has been approved and transmitted

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This speech was carried in the *People's Daily* on September 24, 1985.

by the State Council, that the peasants engaged in industry and business earn more than those who grow crops. These peasants are no longer interested in raising pigs or growing vegetables, because in their opinion there can be “no prosperity without engaging in industry.”

Of course, township and village enterprises should be developed. The trouble is that the slogan “no prosperity without engaging in industry” is heard much louder than the slogan “no economic stability without agricultural development.”

Feeding and clothing a billion people is a major political as well as economic challenge for China because “grain shortages will lead to social disorder.” We cannot afford to underestimate the importance of this matter.

3. The socialist economy must be developed proportionately and in a planned way.

We are Communists. Our goal is to build socialism.

The purpose of the ongoing socialist economic restructuring is to perfect and develop the socialist system.

Our economic structural reform is designed to develop the productive forces and gradually improve the people’s living conditions. Notable results have been achieved in the rural reform. The general orientation for restructuring the urban economy is correct, but we are still experimenting with concrete measures in carrying it out. We must look carefully before taking each step and constantly review our experience if we are to make a success of the reform.

In the country as a whole, it is still necessary to give priority to planned economy and to keep the role of the market in a subordinate position.

Of course, planning consists of both mandatory and guidance planning. Although different in approach, both involve the planned use of economic regulators. Guidance planning is not the same as market self-regulation. Market regulation does not involve planning: it blindly allows supply and demand to determine production.

Planning is the essence of macro-control. Only by doing a good job of macro-control can we stimulate the micro-economy and make it dynamic yet avoiding chaos.

The Proposal that has been adopted by this conference for the Seventh Five-Year Plan sets the annual rates of growth for industry and agriculture at 7 per cent and 6 per cent respectively. These are feasible rates; even though we may surpass these rates during this period, there is no reason to set them higher.

During a meeting with foreign guests on August 2, Comrade [Deng] Xiaoping<sup>192</sup> mentioned China’s excessive industrial growth, saying, “That

sounds good, but it contains disturbing elements.” I agree with this.

In 1984 the total value of our industrial output was 14 per cent higher than in the previous year, and in the first seven months of this year it was 22.8 per cent higher than in the corresponding period of 1984. This high growth rate cannot be maintained because our current energy and transport as well as raw and semi-finished material resources, etc., are insufficient.

In the final analysis, we should continue to make steady, balanced and systematic progress. This is the only way to achieve the highest possible growth rate. Otherwise, things will get out of control, inevitably leading to setbacks, and this will slow down our progress. As the saying goes, “More haste, less speed.”

4. Improving Party conduct remains a major task for the entire Party.

Over the past few years the central leading organs have worked hard to improve Party conduct. To bring about a fundamental improvement, however, much remains to be done.

Today there are a few Party members and cadres — veterans in particular — who have failed to adhere to the principles and spirit of the Party and have yielded to unsound practices.

During the Party consolidation campaign we discovered a number of serious violations of Party discipline and of state laws, such as the production of imitation medicines and liquors.

The vast majority of cadres and people both inside and outside the Party have been outraged by these cases, which deserve the serious attention of the whole Party.

We must on no account neglect the importance of improving Party conduct.

First, Party organizations at all levels should pay full attention to this matter. Second, leading cadres at all levels, particularly senior cadres, should take this matter seriously and set good examples. Third, veteran Party members and cadres, including those who have resigned from leading posts or have retired altogether, should concern themselves with this issue. There is no such thing as retirement when it comes to setting good examples, taking an interest in Party conduct and discipline or helping us supervise. Each Party member should stand in the front line so long as he or she is alive.

I hope that the Party’s senior leaders will set a good example in educating their children. The children are absolutely not allowed to use their parents’ positions to pursue personal power, personal interests or to gain privileges.

5. We must intensify ideological and political work and preserve the prestige of the Party departments in charge of such work.

It was a very good thing that this matter was recently discussed by the

Secretariat. Our Party, which currently holds power, is facing a new period of development. The issue of strengthening the Party ideologically and organizationally is now of paramount importance.

There exist some people, including some Party members, who have forsaken the socialist and communist ideal and who have turned away from serving the people. In pursuit of their own selfish gain, they “put money above all else,” without regard to the interests of the state or the people, even to the point of violating discipline and the law. As the press has reported more than once, some of them have become rich by unlawful means such as speculation and swindling, graft and bribe-taking. In their dealings with foreigners, they give no consideration to personal or national dignity.

These problems can be attributed to the relaxation in ideological and political work and to the decline in the function and authority of the departments in charge of such work. This should be a lesson to us.

Party organizations at all levels should take ideological and political work seriously and preserve the prestige of those departments.

The central tasks of our ideological and political work should be to educate people in communist ideals and to publicize the Party’s Four Cardinal Principles.<sup>293</sup> We absolutely must not slacken our efforts in this respect. On the contrary, we must redouble them.

During the democratic revolution, we educated Party members and progressive people in communist ideals, thus endowing the Party with inexhaustible combat effectiveness and enabling it to win victory in the revolution.

Socialist economic development and reform of the economic structure require an even higher degree of dedication to the communist cause.

Intensive education in patriotism and revolutionary traditions should go hand in hand with intensive education in communist ideology.

6. To uphold democratic centralism is the principle prescribed in the Party Constitution.

Experience has shown that it is not easy to put that principle into practice.

It is my hope that the young and middle-aged cadres just elected to the leading bodies will learn how to perform their duties in accordance with democratic centralism.

Leading bodies at all levels must practise democracy fully, listening carefully to the whole range of opinions, especially the opposing ones. They should act according to the Party Constitution. They should refrain from trying to have the final say.

To avoid mistakes and unnecessary detours and to achieve better results,



all decisions on important issues must be made collectively after full discussion.

That is all I have to say today.

## **WE MUST CORRECT THE TENDENCY TO NEGLECT FURTHERING CULTURE AND IDEOLOGY**

*September 24, 1985*

Since the Twelfth National Congress of the CPC,<sup>254</sup> the Central Commission for Discipline Inspection and the local discipline inspection commissions at all levels have done a great deal and played a positive role in helping various Party committees to make fundamental improvements in the Party's style of work, raise Party members' political integrity, check unhealthy tendencies, punish those who violated discipline and the law, and combat erroneous ideas among Party members.

At present, however, there are still many serious problems in the Party's style of work and social conduct. Therefore, it will still be an arduous task to achieve a fundamental turn for the better in these areas.

I now wish to make the following suggestions for fundamentally improving the Party's style of work.

1. The Party must overcome the tendency to underestimate the importance of building a socialist society with an advanced culture and ideology.

Building socialism includes both the building of material wealth and the development of socialist ethics; the two are inseparable. The goal of socialism is neither solely to construct material wealth nor solely to promote ethical development. It will be impossible to build material wealth first and then attend to cultural and ideological progress. Today everybody is devoted to building material wealth, and this is completely necessary. But it is noteworthy that the phenomenon of overlooking ethics is quite common.

In the Party, if the cultivation of ethics and ideological and political work are neglected, the Party's work style cannot be improved; in society, if ethical development and communist ideological education are neglected, undesirable social conduct will result. In short, if socialist ethics are neglected,

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Written speech delivered at the Sixth Plenary Session of the Central Commission for Discipline Inspection of the CPC. It was first published in the *People's Daily* on September 27, 1985.

our cause as a whole is likely to deviate from Marxism and from the socialist road. The capitalist philosophy "Every man for himself, or the forces of heaven and earth will destroy him" and the slavish mentality which gives no regard to national and human dignity are factors endangering the cause of socialism.

Negligence in promoting cultural and ideological progress, which is now prevalent in our society, is by no means a minor problem. Therefore all Party members must pay special attention to this situation.

2. Serious attention must be given to correcting the spread of decadent capitalist ideology and way of life.

The policy of opening to the outside world by importing advanced foreign technology and management expertise to serve China's needs for socialist construction is entirely correct and must be firmly upheld.

But at the same time, one must note that opening to the rest of the world will inevitably be accompanied by the introduction of decadent capitalist ideology and life styles, both of which are detrimental to our socialist cause.

If our Party committees and members, especially veteran cadres, are clearly aware of and highly vigilant against this, and purposefully conduct education with communist ideology as the focal point, we need not fear an infiltration of capitalist ideology. We are convinced that the truth of Marxism and communism will overcome the intrusion of decadent capitalist ideology and life style.

It merits our serious attention that currently many Party committees and cadres have let down their guard with respect to this. For example, when we talk about the policy of opening to the outside world and invigorating the domestic economy, some Party, government and military institutions and the cadres in these institutions along with their children swarm forward to engage in business. According to surveys in a dozen provinces and cities, since the last quarter of 1984, some 20,000 companies of various types have sprung up, a considerable number of which collaborate with law-breakers and unscrupulous foreign business people. There has been exploitation of the reform and involvement in all sorts of criminal activities, including speculating on price fluctuations, engaging in illegal trade, offering or taking bribes, and smuggling or trafficking in smuggled goods. Many have resorted to deception, extortion, evasion of customs duties, and production and sale of counterfeit medicines and liquors, which can be lethal to human life. Even the presentation and sale of pornographic videotapes and the seduction of women into prostitution have appeared.

The decadent capitalist ideology, which is characterized by "putting money above all else," is exerting a serious corrosive influence on our Party's

work style and on social conduct in general.

To build socialism, we must resist and eliminate these ugly ideologies and practices. We must mobilize and organize the forces of the entire Party and of society to wage a resolute struggle against all of this.

The tasks for the Central Commission for Discipline Inspection and the local discipline inspection commissions at all levels are as follows: To deal resolutely and according to Party and administrative discipline with all those who violate Party or administrative discipline; and to ask the relevant departments to take legal action against those who violate the law. Discipline inspection commissions at all levels must act upon these principles, otherwise they will be considered negligent in their duties.

Without strengthening ideological and political work and strictly implementing Party and administrative discipline, it will be impossible to achieve fundamental improvements in the Party's style of work or in general social conduct.

3. Party committees and discipline inspection commissions at all levels must meet their responsibilities.

If violations of Party principles and policies or of laws and discipline are due to one person's mistake, then this represents a personal problem. But if long-term unhealthy tendencies and practices prevail in a certain unit or location, then these obviously cannot be blamed on individuals, but rather, they must have something to do with the Party committee or unit in that location.

If unhealthy tendencies that endanger socialism and corrupt the Party's work style and social conduct are ignored and go unchecked, then the blame must be placed not only on individual violators, but also on the Party committee and on the discipline inspection commission in that unit or location. Take the motor vehicle scandal on the island of Hainan,<sup>294</sup> for example. This involved illegal trade in foreign currency, swindling, corruption and bribe-taking. Not only should the violators bear responsibility, but also the local Party committee. When counterfeit medicine was produced and sold in Jinjiang Prefecture, the local Party committee turned its eyes away, and even offered its protection. If we do not place responsibility with the local Party committee, we will be departing from the Party stand.

While Party committees at all levels are promoting material progress, they should also pay attention to cultural and ideological progress. When doing ideological and political work, they should strictly enforce Party and administrative discipline. Only then can the Party bring about a fundamental improvement in its style of work. Under the unified leadership of the Party committees, the discipline inspection commissions at the corresponding



levels must make strenuous efforts to achieve the goal of improving the Party's style of work.

## THE ISSUE OF INVESTIGATION AND STUDY AND THE SYSTEM OF INNER-PARTY DEMOCRATIC LIFE

*January 16, 1987*

The decision to re-establish the Secretariat of the CPC Central Committee in February 1980 was supported by many veteran comrades in the Party, including Comrade [Deng] Xiaoping.<sup>192</sup> That was a good thing.

In 1980 and in 1981, I remarked on the working methods of the Secretariat. Later on I also suggested that before the Secretariat discussed and decided major issues, it should conduct investigations, do studies and prepare alternate plans, not just one.

It is essential to have investigations and studies. I too engaged in this. I did it for half a month in Xiaozheng, my hometown, in 1961. There I found that the public pigpens were very dirty and that all the pigs, whether large or small, sick or healthy, were fed the same thing. To the contrary, the pigs raised in the homes of peasants were very clean and were even fed loaches. Under these circumstances, I proposed that pigs, including most sows, be distributed to the peasants so that they could raise them on their own. After I returned to Beijing, I submitted a report to the Secretariat on my two weeks of activities in the township of Xiaozheng. When joint state-private enterprises were established, the people held a parade to celebrate the event at the Tiananmen Gate, which included the sounding of gongs and the beating of drums. I asked Comrades Yao Yilin<sup>83</sup> and Wu Bo<sup>295</sup> to conduct a study of issues related to joint state-private enterprises. The results of the study showed that in our commerce, each trade had large, medium and small shops. We divided these into joint state-private shops, cooperative shops and cooperative groups. In addition, we proposed that small businessmen and pedlars in cooperative groups should not change their business methods for a long time to come. At that time, I was in good health. I not only worked during the

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Excerpt from a speech delivered at an Enlarged Meeting of the Political Bureau of the CPC Central Committee.

daytime, but I also often visited Premier Zhou at 8 o'clock in the evening and Chairman Mao at 12 p.m. So I was very busy. I do not think that conducting investigations and doing studies means that representatives from our 100 or more ministries should be reading these reports one by one at Secretariat meetings, that everyone should make comments, or that the chairs of the meetings should have to summarize everything before the meetings are over. Neither does conducting investigations and doing studies mean visiting 22 counties in a week. This would amount to nothing more than just being driven around. As a working method, that would be too simple.

It is necessary to stress that in our Party we should have a system for democratic activity. It should be specified how often the Standing Committee and the Political Bureau of the CPC Central Committee should meet. Meetings of the Standing Committee and of the Political Bureau and enlarged meetings of the Political Bureau should be held separately. This constitutes one aspect of democratic life in the Party. Democratic centralism should be upheld. If meetings and discussions are held often for the purpose of exchanging views, things will not become problematical.

We should promote cadres from every corner of the country. When I begin to work in a new place, I often do not bring my old cadres with me. After we left northeast China for the regions south of the Great Wall soon after liberation, I appointed local people as cadres. Both Comrades Yao Yilin and Wu Bo are from north China. We should use cadres from all parts of the country; and we should use those whom we do not know well. It is an important principle to make local people cadres. Our key principle is to promote cadres from every corner of the country, to appoint those with moral integrity and professional competence. Comrades often say that we need cadres with a pioneering spirit. They are indeed needed, but primarily they must possess moral integrity as well as professional competence. Professional competence is important, but moral integrity is more important. I hope the Political Bureau and the Secretariat will pay attention to this issue.

## STUDY PHILOSOPHY IN ORDER TO FULFILL HEAVY RESPONSIBILITIES

*July 17, 1987*

Today I should like to make two points: one is that you are charged with heavy responsibilities and the other is that you should study philosophy.

Comrade [Deng] Xiaoping is now China's paramount leader, but he is already 84 if reckoned in the traditional Chinese way. So it will not be long before all the important tasks of leading the Party and the country fall on the shoulders of your generation.

Why do I foresee your responsibilities being so heavy? First, the present situation has been hard-won. It has been won through the sacrifice of millions of revolutionary martyrs and the hard struggle of Party members and people of all nationalities throughout the country. Second, since ours is a large socialist country with a population of 1 billion people, it occupies and will continue to occupy a significant position in the world.

If we want to run the Party and the country well, it is essential to enable our leaders to think correctly through studying Marxist philosophy.

When I served as head of the Organization Department of the CPC Central Committee in Yan'an, Chairman Mao advised me on three occasions to study philosophy and sent teachers to help us in our study. The Organization Department then formed a study group of six people, namely, Li Fuchun, Tao Zhu (then political secretary to Wang Jiaxiang), Wang Heshou, Chen Zhengren, Wang De<sup>296</sup> and I. There were also several auditors joining in our study group. There were not many people in the group, and all of them were to be more or less at the same theoretical level. Every member was required to read dozens of pages every week before a discussion was held. At the discussion we discussed problems we came across in our studies and conducted debates on conflicting ideas.

Beginning in 1938, we pursued these studies for five years. We studied philosophy, the *Manifesto of the Communist Party*, political economics and

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Main points of a talk with leading members of the CPC Central Committee.



again philosophy. We read not only the works of Marx, Engels, Lenin and Stalin, but also those of Chairman Mao, including *Problems in Strategy of China's Revolutionary War*, *On Practice*, *On Contradiction* and *On Protracted War*. We also read writings of other people. I was deeply impressed by *On Protracted War*. At that time our victory in the Tai'ierzhuang battle<sup>297</sup> turned the heads of some people. Having soberly analysed various factors, Chairman Mao gave a lecture to some leaders on the theories of national subjugation, quick victory and protracted war. After the lecture, I suggested that he repeat the lecture for a larger number of cadres and he agreed. Later he revised the draft of his lecture and had it printed and distributed. The publication of *On Protracted War* shocked both the liberated areas and the Kuomintang-controlled areas.

I read all the documents and telegrams drafted by Chairman Mao in Yan'an, and I drew the conclusion that we should seek truth from facts. The most important thing we should do is to get a clear picture of the facts. As I said before, the difficult thing is to ascertain facts, not to formulate policies. Therefore, we must be adept at listening to different views. When you have come up with an idea, you may leave it for a while, after which you can reconsider it and see whether there are other opinions on this idea. If there are, you must listen to them attentively and discuss this with others so as to absorb what is correct, refute what is wrong and perfect your own idea. In refuting erroneous opinions, your own idea is perfected. If there are no disagreements, you may assume a contrary position and see if others can refute it. It is difficult to get people to express their dissent. But opposing views can help us think more deeply. But usually, people are not willing to offer contrary viewpoints. It is absolutely a good thing to hear different opinions. This does not conflict with our effort to be in agreement with the central authorities. When I worked at the Finance and Trade Office of the State Council, once Vice-Minister of Finance Wang Xueming proposed that, by increasing the price parity of industrial to agricultural products, more money could be collected from the peasants to expand capital construction. We debated this for three days, and he eventually gave his proposal up. Argument itself is also a way of comparison through which we can ascertain which view is correct and which is not, which leads us toward a common understanding.

In short, I have learned from my personal experience that the study of philosophy makes one wise and benefits one's whole life. So I hope you will organize comrades at the Political Bureau, the Secretariat and the State Council to study philosophy and to regard this as a part of your work and as an important duty as well.

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At the Sixth Plenary Session of the Sixth CPC Central Committee held in 1938, Chairman Mao pointed out, “So far as shouldering the main responsibility of leadership is concerned, our Party’s fighting capacity will be much greater and our task of defeating Japanese imperialism will be more quickly accomplished if there are one or two hundred comrades with a grasp of Marxism-Leninism, a grasp which is systematic and not fragmentary, genuine and not hollow.”<sup>298</sup>

Under the new situation, the Party membership is still facing the urgent task of learning to use the position, standpoint and method of Marxism-Leninism and Mao Zedong Thought to analyse and solve problems.

**WRITTEN SPEECH FOR THE NINTH PLENARY  
SESSION OF THE CPC CENTRAL  
COMMISSION FOR DISCIPLINE INSPECTION**

*October 19, 1987*

1. Since the Central Commission for Discipline Inspection and the local discipline inspection departments at all levels were established, they have achieved a great deal. But they still have some shortcomings in their work that have to be remedied. If we want to rectify the Party work style, it is crucial to enhance the quality of Party members and particularly of high- and middle-ranking cadres.

2. Last October Comrades [Deng] Xiaoping<sup>192</sup> and [Li] Xiannian<sup>114</sup> and I decided that we would retire at the Thirteenth National Congress of the Party. This is good for the cause of the Party.

**CONTROLLING POLLUTION AND PROTECTING  
THE ENVIRONMENT  
CONSTITUTE A MAJOR POLICY OF CHINA**

*August 27, 1988*

Although you already have these two articles,<sup>299</sup> I am now distributing them to you and asking you to read them again.

Pollution control and environmental protection constitute a major policy of our country. We should carry this policy out as a matter of great importance. First, we must conduct regular and vigorous publicity in order to attract people's attention to this issue. Second, we must increase the amount of investment in this work. Third, we must exercise continuous supervision and inspection in this regard. In addition, we will hold people at each administrative level responsible for the results.

Please inform the relevant departments to show me related documents whenever they have any in the future.

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Letter to Li Peng, Yao Yilin and other comrades.



## SEVERAL ISSUES CONCERNING THE CURRENT ECONOMIC WORK

*October 8, 1988*

It seems that we are experiencing many difficulties in a socialist country like ours in learning the methods of Western market economy. You are exploring a new area, and it is likely you will meet with some problems in the course of exploration. You should continue your exploration and frequently review your experience.

The following are the eight suggestions I am putting forward:

(1) The grain issue is always a major issue.

We must provide enough food for one billion people and it is the obligation of peasants to till the land and sell grain to the state.

A large number of peasants are working in township and village enterprises and are buying grain for consumption. This issue must not be ignored.

We should conduct research on township and village enterprises to find out which enterprises are workable and which are not, so as to provide sound guidance for their development.

(2) Farmers must improve soil fertility, and those who contract for operation of industrial and transportation enterprises must guarantee that the equipment remains in good condition.

The more chemical fertilizer (in excess of a certain quantity) farmers use, the less fertile the soil will become. In the years to come we must vigorously encourage the use of manure in farming. We should investigate the reason why peasants do not attach importance to the use of manure and propose effective solutions to this issue.

Institution of the contract responsibility system in enterprises has both positive and negative aspects. For example, many enterprises overuse their equipment in order to achieve contract targets. I am afraid that the increasing occurrence of accidents in recent years is a result of this. Enterprises must

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Main points of a talk with the leading comrades of the Central Committee.

preserve the functional integrity of equipment and especially of key equipment, and they must ensure that no mishaps occur.

In short, we should be aware that the widespread tendency of a ruinous use of resources exists in agricultural and industrial production. This should draw our close attention.

(3) The political authority of the Central Committee should be based on its economic authority. Without the economic authority, the Central Committee's political authority cannot be consolidated.

In economic activities, the Central Committee should centralize those powers which must be centralized. It is right to invigorate the economy, but if powers are too decentralized, there will be chaos and the invigoration of the economy will become difficult. At present, too many non-productive projects and especially office buildings, large halls and guest houses are being built. It is very strange that even Heilongjiang Province is building guest houses in Beidaihe.

(4) We should never allow deficit financing.

On the whole, fiscal balance is the most basic of several major economic balances.

To reverse the current chaotic economic situation, we should, first of all, try to achieve fiscal balance and especially a balance in central finance.

At present, bank notes are overissued. The power to issue bank notes should be highly centralized. I think that there should be a single authority responsible for decisions concerning the issuance of bank notes.

(5) We should not copy all of the methods which were workable in the past, nor should we negate their importance.

What we accomplished in the three-year economic recovery<sup>66</sup> is equal to what was achieved in 22 years under the rule of the Chiang Kai-shek.

For about 36 years from the period of the First Five-Year Plan<sup>28</sup> until now, we have experienced setbacks in the course of construction, but our development is rapid enough. During these years we completed 156 projects<sup>181</sup> and engaged in sophisticated scientific and technological research, and we have realized self-sufficiency in petroleum. We built a 1.7-metre rolling mill at the Wuhan Iron and Steel Company, 13 large chemical fertilizer plants, the Baoshan Iron and Steel Company, railways, and power plants, and launched irrigation and water conservancy projects. The role of all these in economic development should not be underestimated.

It took only 71 years for the Soviet Union to become strong enough to compete with the United States. Yet, the United States has a history of about 200 years from the era of George Washington.<sup>300</sup>

Of course, the present domestic and international situation is very

different from what it was in the past. There were shortcomings and mistakes in our economic work.

I said in March 1979 that over the past 60 years, the major defect in planning in the Soviet Union and China has been that we have paid attention to planned and proportionate development to the neglect of regulation by market forces, which is a must under the socialist system. Therefore, we need reform. However, in the course of reform we cannot discard planned and proportionate economic development. Otherwise, the whole national economy will be in chaos.

(6) We should improve people's living conditions to a proper extent and at an appropriate speed.

I still want to emphasize these two things. First, feed the people; second, build the country. We should improve people's living conditions, but we must act within our financial capability.

(7) It is necessary to introduce inflation-proof savings accounts and inflation-proof government treasury bonds.

If we do not take measures to stabilize market prices, drawing on deposits for the purpose of panic buying will recur.

We can borrow foreign funds, but we should try not to borrow too much. We should use the funds properly so as to be able to pay them off in a timely manner.

(8) At present, we are experiencing financial and economic difficulties. While overcoming these difficulties, we should strengthen and rely on the leadership of the Party and especially on the core leading role played by the Party Central Committee.

## WE MUST COMBAT DISTURBANCES<sup>301</sup>

*May 26, 1989 and May 25, 1990*

### I

I should like to make two points on combatting disturbances.

First, we must not back down at this crucial moment; otherwise our socialist People's Republic of China for which 20 million revolutionary martyrs sacrificed their lives will become a capitalist republic.

Second, we veteran comrades must firmly support the Chinese Communist Party with Comrade Deng Xiaoping at its core, as well as the speech delivered by Comrade Li Peng<sup>232</sup> at the meeting attended by Party, government and army cadres in Beijing on behalf of the Standing Committee of the Political Bureau of the CPC Central Committee. At the same time we should take the initiative to do more work among our cadres and the masses.

### II

With regard to the reregistration for Party membership, we may defer some of the applications; but in considering reregistration we must make a distinction between political mistakes and economic and ethical offenses. In dealing with political mistakes, we should act with much caution. If they have made self-criticisms, either in spoken or written form, this shows that they acknowledge their errors. After their mistakes are recorded on file, we should not keep picking on them; that would be bad Party style. Our Party has had bitter lessons in this regard.

The turmoil in 1989 was a very complicated political event which had never before occurred in the People's Republic; it was also a unique political

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Part I contains the main points of a speech at a meeting of the Standing Committee of the CPC Central Advisory Commission. Part II is an excerpt from a letter to members of the Standing Committee of the Central Advisory Commission.



struggle within the Party, given the historical situation. At that time, quite a number of leaders at both central and local levels were unaware of the truth because comrades on the Standing Committee of the Central Committee held various opinions with regard to the incident and because some newspapers conducted incorrect propaganda. So I suggest that we handle this political struggle in accordance with the principle by which we deal with inner-Party struggle. That is to say, in handling the struggle we should proceed from our overall interests—the supreme and long-term interests of the Party. Investigation of comrades who committed mistakes should be based on facts. Of course, those who violated the law must be punished according to law.

At the Party's Seventh National Congress, some of the comrades who had made mistakes were nevertheless re-elected to the Central Committee, and Comrade Li Lisan<sup>217</sup> was one of them. Last year we dismissed Comrade Zhao Ziyang<sup>212</sup> from all his posts within the Party, but we did not expel him from the Party. Comrade Hu Qili<sup>302</sup> remained a member of the Central Committee. I think it was good that we did this, because it helps maintain stability and unity and contributes to our effort to educate and unite the overwhelming majority of the masses. Since China is a large socialist country of 1.1 billion people, it cannot afford any disturbances.

## **THE ESSENCE OF IMPERIALISM REMAINS UNCHANGED**

*September 8, 1989*

I should like to discuss a theoretical issue, which is also of practical relevance.

Is Lenin's exposition on the five basic features of imperialism<sup>303</sup> and on aggression and hegemony as the essence of imperialism now outdated? In my opinion, it is not.

When Lenin was working on this article, World War I, which was staged by imperialist nations in order to carve up colonies, was not yet over. Instead of resolving the basic conflicts between imperialist countries, the war provoked the proletarian revolution.

Historical facts show that imperialists originally invaded and infiltrated other countries mainly by force, and thereafter shifted to using both ideological and military means. At present, they are employing ideological means (political, economic and cultural) more frequently. More specifically, they are carrying out a so-called "peaceful evolution" against socialist countries.

It is harmful and completely wrong to judge Lenin's theory about imperialism as currently outdated.

Now is the time for us to raise our voices to address this issue.

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Excerpt from a talk with leading comrades of the CPC Central Committee.

**NOT BLINDLY FOLLOWING THE INSTRUCTIONS OF  
SUPERIORS OR WHAT  
HAS BEEN READ; CONSIDERING ONLY  
INFORMATION WHICH HAS BEEN  
ASCERTAINED THROUGH EXCHANGE,  
COMPARISON AND RECONSIDERATION**

*January 24, 1990*

When in Yan'an, I carefully studied the documents and telegrams drafted by Chairman Mao. I discerned that the basic guiding ideology running through these was to seek truth from facts. But how does one seek truth from facts? At that time, my answer to this question was that we should not blindly follow the instructions of superiors or what we have read; rather, we should value only that information which has been ascertained through exchange, comparison and reconsideration.

However, I do not mean that we should disobey the instructions of the higher authorities nor that we should lay documents and books aside. By valuing only certain information I mean that we should proceed from actual conditions in studying and handling problems. This is the most reliable method. By the term exchange I mean that we should exchange ideas. Take a teacup as an example. One person perceives only the handle of the teacup and the other can see only the flowers on it: each sees only one side of the teacup. If they exchange their views, they will be able to arrive at a more complete picture of what the teacup really is. The main reason why many mistakes have been made is that we took a one-sided approach to problems and regarded lopsided presentations as overall realities. If leaders exchange their views often and in particular listen to differing opinions, they will benefit considerably.

By the term comparison I mean that we should make comprehensive

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Main points of a talk with leading comrades in the Party, government and army in Zhejiang Province.

comparisons. During the War of Resistance Against Japan, in his article *On Protracted War*, Chairman Mao used this method in making comparisons. He made a comparative study of China and Japan, contrasting such basic features as strengths and weaknesses, big country versus small country, progress and regression, and abundant support to meager support. He refuted not only the theory of national subjugation, which held that “resistance will mean subjugation,” but also the theory of quick victory developed after the victory in the Tai’erzhuang battle.<sup>297</sup> He pointed out that both theories were subjective and one-sided and that the anti-Japanese war could only be a protracted war. Historical developments demonstrated that his judgment was entirely correct. So we can see that all correct judgments are made through comparison. By reconsideration I mean that we should not settle a question in haste but should allow time for reconsideration. This is also what Chairman Mao did. Before making a decision, he would allow one or two weeks in order to listen to different opinions and reconsider. If there are no opposing views, we should assume an antithetical viewpoint. By absorbing what is correct and refuting what is incorrect, we can correct our own views. Moreover, we must revise our views in the process of practice, because people are not always able to understand things correctly the first time. But here, reconsideration does not mean constantly making random changes.

The first part of the title of this article concerns materialism, the second part concerns dialectics, and the integration of the two is what is meant by the term materialist dialectics.

There are two ways of conducting practical research. One is for leaders to direct working groups or to send them to the countryside or to factories to do research, which is necessary. The other is that each high- or middle-ranking leader should have some intimate friends or staff members available with the courage to speak the truth, so that the leader can learn from them what the cadres at the grass-roots level and the masses are thinking. This way of research is true, quick and extensive. By “true” I mean that these people tell you the truth and speak their minds because they trust you and know you will not punish them. I have some friends of this kind. By “quick” I mean that you can promptly discover an incipient problem. By “extensive” I mean that in every province and municipality and in every profession, there are many high and middle rank cadres including retired ones. Because of this, the latter way of investigation is more important, although both are indispensable.

In June and July in 1961, I spent half a month investigating conditions at the Xiaozheng Commune in Qingpu County. I had participated in the peasant movement there in 1927 and have had frequent contact with the



local people since liberation. Because of this, the cadres and the people there were willing to be open and honest with me. At that time the policy on pig-raising was already defined as “pigs should be raised both by collectives and by individuals, with stress on the latter.” However, it was not explicitly stipulated whether sows should be raised by collectives or by individuals. That question had an important bearing on whether pig-raising could be restored and developed rapidly. After I visited ten of the 15 pig farms in the Xiaozheng Commune, observed the sows being raised by individuals and held several discussions, I came to realize that the sows raised by individuals grew better than those raised by collectives. Sows raised by individuals were fed properly, and some were even fed loaches, the pigsties were clean, and these sows bore more piglets with a high survival rate. In contrast, sows raised by collectives were given only one type of feed, without distinctions for size or health, the pigsties were dirty, and more sows had miscarriages and the survival rate was low. From this study I concluded that most sows should be raised by individuals.

In short, you can try out the latter way of investigation in Zhejiang. You should make close friends with people from all walks of life. This can be done in the army too.

The army is extremely important. It must firmly carry out Party instructions. Without the army, we could not have dealt with last year’s incident Tiananmen Square.<sup>301</sup> Therefore, you must spare no effort in strengthening the army.

## **TAKING THE PROBLEM OF RELIGIOUS INFILTRATION SERIOUSLY**

*April 4, 1990*

I was rather disturbed after I recently read some materials about the increasingly serious religious infiltration and particularly the increasingly rampant counterrevolutionary activities under the cloak of religion in the new situation. It is a favorite trick of our class enemies both at home and abroad to utilize religion to win the people over and particularly to turn the youth away from us. This was a bitter lesson for some communist governments which have fallen from power. It is high time the Central Committee should earnestly solve this major problem. We should ensure that religious infiltration does not become a factor leading to instability.

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Letter to Comrade Jiang Zemin.

## **APPROACHING THE CRITICAL ISSUE OF WATER RESOURCES FROM A STRATEGIC PERSPECTIVE**

*June 6, 1990*

Comrades Zhang Guangdou and Chen Zhikai<sup>304</sup> put forward important proposals after having conscientiously studied the issue of water resources in our country. The problem of water has always been a big one for us. We should approach this serious issue from a strategic perspective. Leading bodies at all levels and particularly those responsible for economic work and science and technology should attach the same importance to the need to plan water usage, conserve water, treat polluted water and develop new water resources as they do to problems concerning grain and energy. They should incorporate the issue of water resources into the long-term plan, the five-year plan and the yearly plan, so we can gradually overcome the current serious crisis in water resources.

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Written instructions for the article entitled “China’s Problem of Water Resources and Ways to Solve It” by Zhang Guangdou and Chen Zhikai.

## TAKING A DOWN-TO-EARTH ATTITUDE IN OUR WORK

*June 6, 1990*

I should like to discuss a few questions with you.

1. We cannot abolish state financial subsidies.

A subsidy, direct or indirect, is a subsidy.

In our country, it is good to maintain low wages, a high level of employment and government subsidies; this constitutes a basic state policy for maintaining social stability.

Even economically developed capitalist countries subsidize some of their products.

Of course, through improved operation and management and increased economic returns, we can gradually reduce some unnecessary subsidies, like the subsidies for enterprises operating at a loss. However, it is impossible to abolish subsidies altogether.

2. We should take a down-to-earth attitude in our work.

Since Comrade Jiang Zemin began taking charge of the work of the central leadership, a number of sound principles and policies have been formulated. Now the crux of the problem is how to implement these.

I shall make this clear by giving a few examples from the past:

During the three years of difficulty, we focused mainly on two things: One was to mobilize 20 million urban dwellers to go to the countryside; the other was to withdraw 6 billion yuan in currency from circulation by opening expensive restaurants and selling expensive candies. At that time, there was a shortage of grain, and we had four options for dealing with the problem: (1) readjusting rural policies; (2) letting industry support agriculture; (3) importing grain; and (4) mobilizing urban people to go to the countryside. Through repeated comparison of these four solutions, we decided that the first was fundamental, the second and the third were under constraints of time and quantity, and the fourth was indispensable. In 1962, the amount

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Excerpt from a talk with leading comrades of the CPC Central Committee.



of currency in circulation reached 13 billion yuan, of which only 7 billion was necessary for social circulation. The question was how to deal with the extra 6 billion. We introduced several kinds of expensive commodities. As a result, the 6 billion yuan was withdrawn and market prices were stabilized.

The Baoshan Iron and Steel Company lost dozens of millions of US dollars owing to delays in construction projects. This company was an especially large project affecting the overall situation. Since it was begun hastily, problems arose and there were differences of opinion on these. Should we have continued the project or given it up? The Financial and Economic Commission of the State Council, through repeated consideration, decided to complete the project.

The 14 opinions I discussed in my speech “The Economic Situation and Experiences” in December 1980 were aimed at the situation at that time and helped a lot. Generally speaking, they are still valid today.

3. We should spend time on strategic issues.

In the past there was a kind of merchant who was often seen wearing a skullcap and holding a waterpipe. This type of merchant specialized in evaluating strategic issues.

Our country has established diplomatic relations with 135 countries and it associates with 263 political parties throughout the world. However, there are only 365 days in a year. If you were required to attend all of the meetings with foreign visitors, I am afraid none of you would be able to stand that.

At present there are too many meetings. If you attend all of them, nothing else will get accomplished.

You are doing a job that is more difficult than what we did. And there are also many emergencies that you have to deal with.

All of you are over 60 years old. I still insist that you should not indulge in meetings.

## MOURNING COMRADE LI XIANNIAN<sup>114</sup>

*July 21, 1992*

The death of Comrade Xiannian is a tremendous loss to the Party and the country.

I became acquainted with Comrade Xiannian in April 1937. At that time, he led the surviving 400 members of the Western Route Army<sup>305</sup> to Xingxingxia on the boundary of Gansu and Xinjiang after having undergone bloody battles and extreme hardships. I later reinforced them in Xingxingxia after I returned to Dihua (currently named Urumqi) from the Soviet Union as a representative of the CPC Central Committee. This helped preserve some of our forces under the extremely straitened circumstances at that time, and in particular a number of Party and Army cadres.

Since the days of the Red Army, Comrade Xiannian had been known as a general who fought many battles courageously and skillfully. During the long period of armed struggle, he performed unforgettable meritorious deeds for the liberation of the Chinese people.

In 1954 Comrade Xiannian was transferred from Hubei Province to the Central Government where he led national financial work. Although he was previously a general, he quickly became familiar with the economic work at the time, which was really a rare feat.

What should be mentioned in particular here is that during the “cultural revolution,” Comrade Xiannian assisted Premier Zhou in taking charge of national financial and economic work under difficult circumstances; he assisted in the acceleration and completion of construction of a large number of projects. The projects included the Panzhihua Iron and Steel Plant, the steel rolling mill with a 1.7 meter-wide roller at the Wuhan Iron and Steel Company, 13 sets of large fertilizer equipment, four sets of large chemical fibre equipment, the Jiaozuo-Zhicheng Railway, the Xiangfan-Chongqing Railway and the Shengli Oilfield. These projects laid a good foundation for the socialist modernization drive in China.

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Originally carried in *People's Daily* on July 23, 1992.

In the struggle to crush the Gang of Four, which greatly affected the destiny of our Party and country, Comrade Xiannian played a role as important as that of Marshal Ye.<sup>172</sup> Since Marshal Ye and Comrade Xiannian enjoyed high prestige among veteran revolutionaries, Comrade Xiaoping<sup>192</sup> suggested that they talk with veteran cadres. When I went to visit Marshal Ye, I saw Sister Deng<sup>306</sup> coming out after having had a talk with him. Marshal Ye showed me the minutes of a talk in which Chairman Mao had discussed factional problems within the Party. Then he asked me what we could do about this issue. I responded that a confrontation was inevitable. Pushed by Marshal Ye and Comrade Xiannian, the central leadership at that time decided to crush the Gang of Four at one stroke, ushering our country into a new historic period.

Neither Comrade Xiannian nor I visited the special economic zones, but we have all along paid attention to their development. We believed that special economic zones were necessary and that we must learn from our experience with them in order to make them a success. Over the past few years, the Shenzhen Special Economic Zone has been initially successful in shifting from an import-oriented economy to an export-oriented one. In addition, a number of skyscrapers have been erected recently. This demonstrates the rapid development in Shenzhen. Today the economic development in China is much larger in scale and more complicated than in the past, and many measures that were effective in the past are no longer applicable to the current situation of reform and opening up. The new situation requires us to learn more and to explore and solve new problems continuously.

Comrade Xiannian has devoted his whole life to the realization of socialism and communism in China. His revolutionary spirit lives on. We shall remember him and continue to learn from him.

## **WE MUST SAFEGUARD AND STRENGTHEN THE AUTHORITY OF THE PARTY CENTRAL COMMITTEE**

*February 9, 1994*

Your work in Shanghai was done well, very well done.

Following the Third Plenary Session of the Eleventh CPC Central Committee<sup>156</sup> in 1978, the national economy has developed rapidly and the standard of living has improved considerably. This fact is obvious. Of course, there are still many difficulties and problems. To solve them, first of all, we should safeguard and strengthen the authority of the Party Central Committee with Comrade Jiang Zemin at its core. Without this authority, we will not be able to accomplish anything or maintain social stability.

The Central Government has decided to introduce a revenue sharing system<sup>307</sup> this year so that the Central Government will be able gradually to control necessary financial resources. I am so glad that Shanghai and other parts of the country all support this decision. This indicates that everyone is thinking about the overall situation.

In view of the situation throughout the country, an issue in the current economic work which merits our particular attention is the need to adapt the scale of construction to the national strength while allowing some leeway. At the same time, we should concentrate on increasing economic returns.

Our current central leadership is firm and capable and has done a good job. As long as the whole nation works with one heart and one mind and unites as one, implementing in a down-to-earth manner the principles, policies and measures adopted by the CPC Central Committee and the State Council, there will be high hopes of making a success of China's economic programme and socialist China will have a bright future.

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Excerpt from a talk with leading comrades in Shanghai.



## NOTES

<sup>1</sup> The Eighth National Congress of the Chinese Communist Party was held in Beijing from September 15 to 27, 1956. It analysed the situation following basic completion of socialist transformation of private ownership of the means of production and set the task of building socialism throughout the country. Mao Zedong made the opening speech; Liu Shaoqi delivered a political report; Zhou Enlai gave a “Report on Proposals for the Second Five-Year Plan for Economic Development (1958-62)”; Deng Xiaoping gave a “Report on Revision of the Party Constitution”; and Zhu De, Chen Yun and Dong Biwu made important speeches. The congress adopted a resolution on the political report, a revised Party Constitution and the Proposals for the Second Five-Year Plan (1958-62). It also elected a new Central Committee. The Eighth National Party Congress defined the correct line for advancing the socialist cause and for building the Party. PP. 13, 44, 50

<sup>2</sup> During the period of economic recovery in the early 1950s, the state began a preliminary socialist transformation of capitalist industry and commerce. This was accomplished through such means as placing state orders with private enterprises for the processing of materials or the manufacture of goods, having private shops market the products of state-owned enterprises, and instituting a state monopoly of the purchase and marketing of the products of private enterprises. In 1953 the CPC Central Committee included in the general line for the transition period the task of gradually realizing the socialist transformation of capitalist industry and commerce. Efforts were concentrated on developing joint state-private enterprises, the advanced form of state capitalism. In these enterprises the state had a certain amount of shares, management was exercised jointly by representatives of the state and of the capitalists with the former as leaders, and the capitalists were entitled to about one-fourth of the profits while the rest went to the state and the workers. In this way the enterprises were partly socialist. In November 1955 the Central Committee adopted the “Resolution on the Transformation of Capitalist Industry and Commerce,” by which it decided to convert all enterprises, trade by trade, to joint state-private ownership. In the next few months the conversion proceeded rapidly throughout the country, and by the end of 1956 the socialist transformation of capitalist industry and commerce had been basically completed. PP. 13, 319

<sup>3</sup> The payment of a fixed rate of interest was one of the means in the new period of redemption adopted by the state with regard to the means of production owned by the national capitalists after the conversion of capitalist industry and commerce into joint state-private enterprises on a trade-by-trade basis. On February 8 and July 28, 1956, the State Council successively issued (1) Regulations Concerning the Adoption of the Method of Paying Fixed Interest for Joint State-Private Enterprises and (2) Instructions on Some Questions Concerning the Socialist Transformation of Private Industry and Commerce, Handicrafts and Private Transportation. As regards fixed interest, these two documents stipulated the following: during the joint state-private operation period, the state should pay the national capitalists a fixed annual interest (generally 5 per cent) quarterly on their assessed capital, regardless of their enterprises’ profits and losses. The payment of such interest began in 1956. Originally it was planned to be in effect for seven years; later it was extended for three more years; it was discontinued in September 1966. PP. 14, 48, 151

<sup>4</sup> During the 12 years from the outbreak of the War of Resistance Against Japan to May

1949, the issuance of paper notes increased more than 140 billion fold and prices increased more than 8,500 billion fold in the Kuomintang-dominated areas. Around the time of the founding of New China, because of the need of rapid development of the revolution and failure to unify the financial and economic work throughout the country, the People's Government had to make up for the great financial deficit by issuing paper notes. Moreover, there was disruption caused by speculative capital. All of this resulted in several great increases in prices. Nevertheless, the Central People's Government and the Financial and Economic Committee of the Government Administration Council took a series of effective measures to check rapidly increasing prices. Thanks to the "Decision on Unifying National Financial and Economic Work," which was made by the Government Administration Council on March 3, 1950, revenue and expenditure were soon closely balanced and prices tended rapidly to become stable. As a result, the galloping inflation inherited from the Kuomintang regime was eliminated completely. This was a great victory on the economic front after the founding of New China. P. 22

<sup>3</sup> The cooperative transformation of agriculture was a process in which the individual economy was gradually transformed into a collective economy through such forms as 1) mutual-aid teams, 2) elementary producers' cooperatives and 3) advanced producers' cooperatives. After the agrarian reform had been completed in the rural areas in the early 1950s, many peasants formed seasonal and year-round mutual-aid teams for cooperation in production. In 1953 the Central Committee of the CPC issued the "Resolution on Mutual Aid and Cooperation in Agricultural Production" and the "Resolution on Developing Agricultural Producers' Cooperatives." It also included in its general line for the transition period the task of gradually realizing the socialist transformation of agriculture. As a result, elementary agricultural producers' cooperatives, in which land was pooled as shares and management was unified, were formed throughout the vast rural areas. In July 1955 Mao Zedong made the report "On the Cooperative Transformation of Agriculture," and the following October the CPC Central Committee adopted a resolution on the same subject. Thereafter the agricultural cooperative movement expanded rapidly. By the end of 1956, the socialist transformation of agriculture was basically completed. PP. 28, 319

<sup>4</sup> After the state-owned commercial departments began to deal in pigs in 1954, methods of purchasing live pigs were worked out to ensure simple and fair pricing. The principal method used in various places was "grading according to the gross weight and pricing according to the gross weight." A pig was graded according to its gross weight when it was purchased. The heavier the pig, the higher it was graded and priced. This method was simple and convenient, but it did not ensure a good price for good quality. At the same time, this was liable to encourage peasants to sell overfed, big-bellied pigs. Later, the commercial departments in many localities adopted a new method of "grading according to the output of meat and pricing according to the gross weight," that is, grading according to the output of meat with bones from every 50 kg of a live pig. If a pig had a high output of meat, it was given a high grade and a high per unit price. But the output of meat was determined just by a glance and a touch, so there were cases in which the purchaser forced down the grades and prices of pigs. In order to correct such an unfair practice, the department concerned made the decision on simplification on purchasing standards and on the standards of difference between the estimated output of meat and the actual output of meat. PP. 29, 45

<sup>5</sup> The Second Five-Year Plan is an abbreviation for the Second Five-Year Plan of the People's Republic of China for National Economic Development from 1958 to 1962. A proposal for the plan was adopted at the Eighth National Congress of the Communist Party of China on September 27, 1956. The plan was not carried out because serious errors occurred in the guidance to the economic work. PP. 29, 50, 67, 89, 118

<sup>6</sup> A reference to the taxes and profits turned over to the financial department by the state monopoly sales department, which dealt in monopolized commodities in accordance with

state laws and decrees. On May 5, 1951, the Ministry of Finance promulgated the “Interim Regulations on Monopoly Sales Undertakings (Draft)” and the “Organic Rules for Monopoly Sales Companies at Various Levels.” By 1952, monopoly sales of liquor had been put into effect nationwide, with the exception of a few areas. The production and sale of liquor came under the centralized management of the state monopoly sales department. Through monopoly sales, the state was able to practise centralized management of specially designated commodities in order to develop production, improve quality, regulate consumption and increase financial revenue in a planned way. P. 31

<sup>9</sup> Local taxes revenue is a general term for taxes retained by local authorities. According to the “Decision on Unified Management of Financial Revenue and Expenditure of 1950” promulgated by the Government Administration Council of the Central People’s Government on April 1, 1950, taxes to be retained by local authorities include income tax on interest from bank deposits, stamp tax on commercial documents, sales tax, slaughter tax, real estate tax, hotel, restaurant and entertainment tax and tax on license plates for vehicles and vessels. Later, some of the taxes were simplified and combined, and the collection of some taxes was suspended. The state instituted a law concerning the general principles of local tax collection, while the people’s governments in various provinces, autonomous regions and municipalities directly under the Central Government defined specific tax exemptions, the incidence of taxation and the methods of tax collection according to actual local conditions. P. 33

<sup>10</sup> The “tolerance” refers to the difference between the estimate at the time of purchase of the output of meat from each pig and the actual output of meat after butchering. The upper difference refers to overestimates while the lower difference refers to underestimates. In February 1957, the department concerned stipulated that the upper difference should not exceed 1 kg and lower difference should not exceed 0.75 kg. P. 33

<sup>11</sup> Transit firms handled land and water freight transit for clients. Some transit firms had warehouses for storing goods. P. 39

<sup>12</sup> The Second Plenary Session of the Eighth Central Committee of the Chinese Communist Party was held in Beijing from November 10 to 15, 1956. At this session, Liu Shaoqi delivered a report on the present situation, Zhou Enlai delivered a report on the plan for national economic development and the control figure for the 1957 financial budget, and Chen Yun delivered a report on the issues of grain and major non-staple foods (pork and cooking oil). Lastly, Mao Zedong gave a concluding speech. P. 41

<sup>13</sup> This refers to spending in excess of the budget. In 1953, the budget for the year did not reflect the actual situation in the country and we were unable to make ends meet. By the end of June 1953, the deficit amounted to approximately 2.1 billion yuan. The CPC Central Committee and the Central People’s Government discovered this problem immediately and took a series of measures to solve it. By increasing production and practising economy, income and expenditures increased by a large margin compared with the previous year. In addition, revenue and expenditures were balanced and there was a slight surplus by the end of the year. P. 41

<sup>14</sup> The Yong’an Company, a large department store in Shanghai, became a joint state-private store in January 1956. Now it is called the No. 10 Department Store in Shanghai. P. 42

<sup>15</sup> A reference to the socialist transformation of agriculture, the handicraft industry and capitalist industry and commerce. P. 43

<sup>16</sup> He Yingqin (1890-1987), a native of Xingyi, Guizhou Province, was then Minister of War of the Kuomintang government and Chief of the General Staff of the Kuomintang National Military Council. P. 45

<sup>17</sup> The great production campaign was a large-scale production campaign launched by the armies and the people in the Anti-Japanese Base Areas under the leadership of the CPC during



the War of Resistance Against Japan. Because of the Japanese invaders' brutal "mopping-up" operations and the Kuomintang government army's encirclement and blockade, the Anti-Japanese Base Areas were faced with great financial and economic difficulties. Therefore, as early as 1938, the armies and organs in the Shaanxi-Gansu-Ningxia Border Region were called upon to launch a production campaign and the peasants were asked to organize production. Soon afterwards each Anti-Japanese base area launched the same great production campaign successively. This campaign helped the revolutionary forces led by the CPC to overcome serious economic difficulties and prepared a material basis for victory in the War of Resistance Against Japan, and much experience was gained in financial and economic work. P. 45

<sup>18</sup> In 1953, the state stipulated the following method for distributing the profits of national capitalists: 30 per cent for income tax paid to the state, 10 to 30 per cent for accumulation funds retained by enterprises, 5 to 15 per cent for workers' welfare funds and 25 per cent for dividends for the capitalists (including remuneration given to directors of the board and supervisors, managers and factory directors). This was the method for profit distribution for state-capitalist enterprises in its elementary and intermediary forms. After 1956, when capitalist industrial and commercial enterprises were converted into joint state-private enterprises, dividends paid to capitalists were replaced by the payment of a fixed rate of interest on the capitalists' total assessed capital. P. 48

Immediately after the outbreak of civil war in Korea on June 25, 1950, the United States of America dispatched troops to Korea under the banner of United Nations forces and at the same time it dispatched troops to invade China's territory of Taiwan. On September 15, the American troops landed in Inchon on the west coast of Korea. They then crossed the 38th Parallel en masse and pushed northward, bombing and strafing the frontier cities and villages of northeast China and thus presenting a serious threat to China's security. To resist U.S. aggression and to aid Korea and protect the homeland, the Chinese people organized the Chinese People's Volunteers. The Volunteers arrived on the Korean battlefield and fought shoulder to shoulder with the Korean people's armies against the U.S. aggressors. Under heavy blows by the Chinese and Korean people's armies, the U.S. imperialists suffered one defeat after another and finally signed the Korean Armistice Agreements on July 27, 1953. Thus the Korean war was ended. P. 49

<sup>19</sup> The land reform mentioned here refers to the revolutionary movement to abolish feudal land ownership and bring about peasant land ownership, a movement conducted by the peasants under the leadership of the Chinese Communist Party in the early days of the People's Republic. In June 1950 the Central People's Government promulgated the Agrarian Reform Law of the People's Republic of China. Beginning in the winter of the same year, the agrarian reform movement was carried out in the newly liberated areas. By winter 1952 the reform had been basically completed throughout the country, except in Taiwan Province and in some minority nationality areas. About 300 million peasants (including those in the old liberated areas) who had little or no land received some 700 million *mu* (1 *mu* = 1/15 hectares) of land and other means of production. PP. 49, 319

<sup>20</sup> This refers to the Agrarian Reform Law of the People's Republic of China promulgated by the Central People's Government on June 30, 1950. P. 49

<sup>21</sup> The movement against the "five evils," namely, bribery, tax evasion, theft of state property, cheating on government contracts and stealing economic information, was launched in 1952 in capitalist industrial and commercial enterprises throughout the country. P. 49

<sup>22</sup> This body was created in July 1949 by the merger of the Financial and Economic Department of the Central Committee of the Chinese Communist Party and the North China Financial and Economic Commission under the leadership of the Chinese People's Revolutionary Military Committee. The Financial and Economic Commission of the Government Administration Council of the Central People's Government was set up on October 21 of the same year to give unified direction to financial and economic work throughout the country.



It was abolished in September 1954.

PP. 57, 218

<sup>24</sup> A reference to the Finance and Trade Office of the State Council. It was set up in accordance with the Organic Law of the State Council of the People's Republic of China, which was adopted at the First National People's Congress which was held in September 1954. Its tasks were to assist the Premier of the State Council in directing the work of the Ministries of Finance, Grain, Commerce, Foreign Economic Relations and Trade, and of the People's Bank of China, and to be responsible for guiding the work of the All-China Federation of Supply and Marketing Cooperatives.

PP. 57, 133, 210

<sup>25</sup> Five-Bat cloth is cotton cloth with the Five-Bat trademark printed on it, produced by the Tianjin No. 2 Cotton Mill.

P. 58

<sup>26</sup> Chen Shaoyu (1904-74), alias Wang Ming, was a native of Jinjiazhai (now part of Jinzhai County), Lu'an, Anhui Province. He joined the CPC in 1925 and served as member of the Central Committee and its Political Bureau, as the representative of the CPC to the Comintern and as Secretary of the Changjiang Bureau of the Central Committee. From the Fourth Plenary Session of the Sixth Central Committee held in January 1931 to the Zunyi Meeting held in January 1935, he was the principal exponent of the "Left" adventurist error. In the early days of the War of Resistance Against Japan, he made Right capitulationist mistakes. For a long time he rejected the Party's criticism and help. He lived in the Soviet Union from 1956 until his death in 1974.

PP. 59, 237, 283

<sup>27</sup> Zhang Guotao (1897-1979), a native of Pingxiang, Jiangxi Province, was one of the participants at the First National Congress of the Chinese Communist Party in 1921. He was elected member of the Central Committee, member of the Political Bureau, and member 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 Soviet Republic of China. In June 1935, when the First and Fourth Front Armies of the Chinese Red Army joined forces in Maogong (now Xiaojin), Sichuan Province, he became General Political Commissar of the Red Army. Zhang opposed the Central Committee's decision to advance the Red Army northwards, worked to split the Party and the Red Army and set up another central committee. In June 1936, he was forced to abolish this second central committee and joined the Second and Fourth Front Armies of the Red Army on their march northwards and arrived in northern Shaanxi in December of that same year. From September 1937, he was Vice-Chairman and then Acting Chairman of the Government of the Shaanxi-Gansu-Ningxia Border Region. While allegedly attending a ceremony to sweep the grave of the legendary Yellow Emperor in April 1938, he fled from the Border Region, reached Wuhan via Xi'an, joined the Kuomintang's secret police and became a traitor to the Chinese revolution. For this he was expelled from the Party. He died in Canada in December 1979.

P. 59

<sup>28</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; after five revisions it was formally adopted at the Second Session of the First National People's Congress held in July 1955. The plan was successfully carried out. As a result, the socialist transformation of agriculture, handicraft industry and capitalist industry and commerce was basically accomplished by the end of 1956. By the end of 1957, every construction project envisaged in the plan had been successfully completed and many targets had been exceeded. This work laid a basic foundation for industrializing the country and did a great deal to raise the people's living standards.

PP. 60, 89, 104, 118, 123, 169, 198, 213, 284, 333, 357

<sup>29</sup> A reference to what was then a new type of domestic animal-drawn tool for ploughing. It had two wheels and two shares and ploughed deep into the soil with high efficiency. The portable steam engine was a kind of power machine suited for the countryside. It used coal and wood as its fuel.

P. 61

<sup>30</sup> "Oxen" here refers to speculators who rushed to purchase goods and materials and then

sold them at high prices so as to gain exorbitant profits.

P. 61

<sup>31</sup> A figurative way of describing the classification of capital construction projects made by planning departments when working out investment allocations. “Bone” refers to industrial and transportation projects and “meat” refers to facilities supporting production and for meeting the daily needs of workers and staff, such as those concerning scientific research, culture, education, public health, commercial services, housing, and other urban public utilities.

PP. 63, 252

<sup>32</sup> Bo Yibo (1908- ), a native of Dingxiang, Shanxi Province, served as Vice-Premier of the State Council and concurrently as Minister of the State Economic Commission in 1956. From June 1958 he served as deputy head of the Central Financial and Economic Group. During the “cultural revolution” he was persecuted. He was elected as an additional member of the CPC Central Committee at the Fourth Plenary Session of the Party’s Eleventh Central Committee held in 1979. Later he served as the Vice-Premier of the State Council. After 1982 he served as Vice-Chairman of the CPC Central Commission for Discipline Inspection.

PP. 64, 138, 258, 333

<sup>33</sup> See the article entitled, “A Solution to the Short Supply of Pork and Other Non-staple Foodstuff” in this volume.

PP. 73, 108, 202

<sup>34</sup> This refers to the payment of agricultural tax.

PP. 76, 82

<sup>35</sup> The Songjiang Subprovincial Administrative Region was then a region of Jiangsu Province. At the beginning of 1958, three of its counties were placed under the jurisdiction of Shanghai Municipality. In March of the same year, the administrative region was abolished and incorporated into the Suzhou Subprovincial Administrative Region. Before long, it was placed under the jurisdiction of Shanghai Municipality.

P. 76

<sup>36</sup> The Suzhou Subprovincial Administrative Region, then a region of Jiangsu Province, was abolished in 1983 and the five counties of Wuxian, Wujiang, Kunshan, Taicang and Shazhou were incorporated into the city of Suzhou.

PP. 76, 176

<sup>37</sup> In his letter of June 15, 1980 to Chen Muhua, Vice-Premier of the State Council and Chairwoman of the State Family Planning Commission, Chen Yun pointed out, “Population control and family planning should be incorporated into the long-term programmes, five-year plans and annual state plans. They are as important as the plans for the development of the national economy.”

P. 79

<sup>38</sup> A reference to the mass movement conducted in accordance with the “Directive on Waging a Large-Scale Socialist Education Movement Among the Entire Rural Population,” issued by the CPC Central Committee on August 8, 1957. The education covered such issues as the superiority of agricultural producers’ cooperatives, the state monopoly on purchasing and marketing of grain and other agricultural products, the relationships between workers and peasants, the elimination of counter-revolutionaries and the observance of discipline and laws.

P. 80

<sup>39</sup> At that 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 of the following year.

PP. 80, 133, 165, 188, 200

<sup>40</sup> Subprovincial administrative regions were under the leadership of prefectural commissioner’s offices of provinces or autonomous regions. In 1970, subprovincial administrative regions were renamed prefectures, which were organs of political power. After 1978, except for autonomous prefectures, all prefectures came under jurisdiction of the governments of provinces and autonomous regions. In 1983, when prefectures were merged with cities on a trial basis and a system was introduced under which cities exercised leadership over counties, some prefectural administrative organs were abolished.

PP. 87, 168

<sup>41</sup> The Ministry of Supervision was then one of the ministries under the State Council. In

accordance with the Organic Law of the Central People's Government of the People's Republic of China, the Government Administration Council set up the People's Control Commission in October 1949. In accordance with the Organic Law of the State Council of the People's Republic of China, the Ministry of Supervision was established in September 1954; it was abolished in April 1959 and was re-established in July 1987. P. 87

<sup>42</sup> The Central Five-Member Group for Economic Work was established on January 10, 1957 by the Political Bureau of the CPC Central Committee. This group, composed of Chen Yun, Li Fuchun, Bo Yibo, Li Xiannian and Huang Kecheng, with Chen Yun as its head, provided unified leadership over the national economic work under the Political Bureau. P. 90

<sup>43</sup> These figures were based on the effective ingredients of nitrogenous fertilizer, phosphate fertilizer and potash fertilizer. P. 90

<sup>44</sup> The Ministry of Land Reclamation, then one of the ministries of the State Council, was established in May 1956 and abolished in June 1970. It was re-established in June 1979. In May 1982 this Ministry, the Ministry of Agriculture and the State Administration of Aquatic Products were merged to form the Ministry of Agriculture, Animal Husbandry and Fishery. It is now Land Reclamation Bureau under the Ministry of Agriculture. P. 91

<sup>45</sup> Andong is now Dandong City in Liaoning Province. P. 93

<sup>46</sup> Xinjiang hemp, a wild fibrous plant used for spinning, grows in Xinjiang Autonomous Region and in Qinghai, Gansu, Shaanxi, Shanxi, Hebei, Shandong and Jiangsu provinces. Because the Luobu Plain in the eastern Tarim Basin of Xinjiang has the highest yield of the hemp, Xinjiang hemp is also known as Luobu hemp. P. 93

<sup>47</sup> Capron, a transliteration of the Russian word Kanpoh, is a synthetic fibre made mainly from phenol, aniline or benzol. P. 93

<sup>48</sup> The Seventh Office of the State Council, also known as the Agriculture and Forestry Office, was established in accordance with the Organic Law of the State Council of the People's Republic of China, which was adopted at the First Session of the First National People's Congress held in September 1954. It assisted the Premier of the State Council in directing the work of the Ministry of Agriculture, the Ministry of Forestry, the Ministry of Water Conservancy and the Central Meteorological Administration. PP. 94, 198

<sup>49</sup> This refers to irrigated fields and paddy fields. P. 94

<sup>50</sup> This refers to the "Decision on Conducting a Large-scale Campaign to Construct Water Conservancy Projects and Collect Manure During This Winter and Next Spring," issued by the CPC Central Committee and the State Council on September 24, 1957. P. 95

<sup>51</sup> The Ministry of Food Industry was established by the State Council in May 1956; it was merged with the Ministry of Light Industry in February 1958. P. 99

<sup>52</sup> The Ministry of Forestry Industry was established by the State Council in May 1956; it was merged with the Ministry of Forestry in February 1958. P. 99

<sup>53</sup> The Second Ministry of Machine-Building Industry was established by the State Council in August 1952 in accordance with the decision of the Central People's Government Council. In February 1958, the Second Ministry of Machine-Building Industry, the First Ministry of Machine-Building Industry and the Ministry of Electrical Equipment Industry were merged to form the First Ministry of Machine-Building Industry. In May 1982, the First Ministry of Machine-Building Industry, the Ministry of Agricultural Machinery, the State Bureau of Instruments and Meters Industry and the State Bureau of Complete Sets of Machinery and Equipment were merged to form the Ministry of Machine-Building Industry. P. 101

<sup>54</sup> Above-norm projects were projects for construction of new facilities, or for the renovation or restoration of existing ones, whose total investment equalled or exceeded the norm set by the state. Design plans for these construction units were examined and approved by the Central Government. Design plans for below-norm projects were examined and



approved by local authorities. This was the method China used to manage different types of construction projects at different levels during and immediately after the period of the First Five-Year Plan. During the period of the First Five-Year Plan, the investment norms for capital construction in various industries were as follows: for the iron and steel industry and the automobile, tractor, shipbuilding and railway-locomotive industries, the investment norm was 10 million yuan; for the non-ferrous metals, chemical and cement industries, 6 million yuan; for the coal, petroleum and textile industries, 5 million yuan; and for the rubber, paper, sugar, cigarette and pharmaceutical industries, 4 million yuan. P. 103

<sup>55</sup> This refers to the regulations stating that the forms of overhauled fixed assets should not be altered and that their value should not be increased. P. 105

<sup>56</sup> When an enterprise entrusted another enterprise to process its raw materials or semi-finished products, it paid the latter the processing fees. The processing fees generally included reasonable costs, profits and taxes. P. 107

<sup>57</sup> The Provisional Regulations on Stamp Tax, promulgated by the Government Administration Council of the Central People's Government on December 19, 1950, provided that tax stamps sold by the government were to be affixed to vouchers pertaining to commercial affairs, property rights and other acts, in accordance with tax regulations and the tax rate. In September 1958, the stamp tax was incorporated into the unified industrial and commercial tax. P. 110

<sup>58</sup> The Provisional Regulations on Interest Tax, promulgated by the Government Administration Council of the Central People's Government on December 19, 1950, provided that tax on interest on bank savings should be levied at the rate of 5 per cent. With the approval of the State Council, this tax was not collected after 1959, coincident with the lowering of interest on deposits and the basic completion of the socialist transformation of capitalist industry and commerce. P. 110

<sup>59</sup> The Circular on Certain Amendments to the Tax System and the Date for Implementation, issued by the Financial and Economic Commission of the Government Administration Council on December 31, 1952, cancelled the Tax on Special Consumption Act which was introduced on January 16, 1951, but introduced the culture and recreation tax on movies and theatres and incorporated other items of consumption into the business tax. On May 3, 1956, the 35th session of the Standing Committee of the First National People's Congress adopted the Regulations on the Culture and Recreation Tax. With the approval of the State Council, this tax was cancelled in September 1966. P. 110

<sup>60</sup> On September 13, 1958, the State Council promulgated the Draft Regulations on the Unified Industrial and Commercial Tax, merging the four major categories of industrial and commercial taxes of the time—taxes on goods, commodity circulation and business and the stamp tax—into a unified tax on industry and commerce. On March 30, 1972, with the approval of the State Council, the Ministry of Finance changed the unified industrial and commercial tax to the industrial and commercial tax and promulgated the Draft Regulations on the Industrial and Commercial Tax. P. 111

<sup>61</sup> This refers to the income tax which is a component of the industrial and commercial tax. P. 111

<sup>62</sup> Circulating funds by the quota refers to the working funds which are managed by quota. They included reserve funds, production funds and finished product funds. Circulating funds which are not managed by quota refers to the portion of an enterprise's working funds which were inconvenient to manage by quota. They included settlement and monetary funds in circulation. P. 112

<sup>63</sup> Additional revenues of the localities refers to the surtaxes that were collected together with the regular taxes, which were not included in the state budget. Regular taxes refers to those taxes that were included in the state budget. The state strictly limited the percentages



for surtaxes. For instance, the agricultural surtax was not generally 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. P. 113

<sup>64</sup> The industrial and commercial tax was introduced in the National Guidelines for the Implementation of the Tax Policies issued by the Government Administration Council of the People's Government on January 31, 1950. In the Provisional Regulations on the Industrial and Commercial Tax issued by the Government Administration Council at the same time, it was stated that the industrial and commercial tax would include the business tax and the income tax. With the introduction of the unified industrial and commercial tax in September 1958, the income tax became the industrial and commercial income tax and the business tax became a component of the unified industrial and commercial tax. P. 113

<sup>65</sup> This refers to a mass movement initiated in 1958 without much prior consideration. In August of 1958, at an enlarged meeting of the Political Bureau of the Central Committee of the Chinese Communist Party held in Beidaihe, it was decided that in 1958 the steel output should reach 10.7 million tons, double the output in 1957, and that people's communes should be established in all rural areas. Soon after the meeting, the movement to produce steel and to establish rural people's communes swept the country. As a result, "Left" mistakes—setting unrealistic targets, issuing arbitrary orders, exaggerating claims of achievement and launching the drive for communization—spread unchecked. All this disrupted normal economic development, used up enormous human and material resources, disrupted the balance in the economy and adversely affected the daily life of the people. The "Great Leap Forward" movement finally ended in the winter of 1960. P. 116

<sup>66</sup> From the time when the People's Republic was founded to the end of 1952, through three years of effort and under the leadership of the Communist Party of China, the people throughout the country restored the economy, which had been seriously impaired by protracted wars and by the reactionary rule of the Kuomintang. This period was called the period of rehabilitation. PP. 118, 218, 357

<sup>67</sup> In February 1958, the former Ministry of Construction Engineering, the Ministry of Building Material Industry and the Ministry of Urban Construction were merged to become the Ministry of Construction Engineering. In March 1965, the Ministry of Building Material Industry was re-established. In June 1970, the Ministry of Construction Engineering was disbanded. P. 119

<sup>68</sup> The First Ministry of Machine-Building Industry was established in February 1958. See Note 53 in this volume. PP. 121, 158

<sup>69</sup> The State Capital Construction Committee was established by the State Council in October 1958 and disbanded in January 1961. It was re-established in March 1965. In May 1982, the State Capital Construction Committee, the State Bureau of Urban Construction, the State Bureau of Construction Engineering and the State Bureau of Surveying and Mapping were merged to become the Ministry of Urban and Rural Construction and Environmental Protection. P. 124

<sup>70</sup> On June 1, 1958, the CPC Central Committee divided the country into seven coordination regions—Northeast, North China, East China, South China, Central China, Southwest and Northwest. Each coordination region had a committee as its leading body. The committee was composed of the first secretaries of the Party committees of the relevant provinces, autonomous regions and municipalities directly under the Central Government and of other people as deemed necessary. The general office for economic planning was the administrative office of the committee. The committee was subject to the guidance of the State Planning Commission and the State Economic Commission. P. 125

<sup>71</sup> The Nanning Meeting was held by the CPC Central Committee in Nanning, Guangxi Zhuang Autonomous Region on January 11-23, 1958 and attended by central and local

leading comrades. The participants at the meeting discussed the National Economic Plan for 1958, the state budget and ways to improve work methods. At the meeting, Mao Zedong wrongly criticized the correct proposal which opposed rash advance made by Zhou Enlai and Chen Yun in 1956, as he did at the Third Plenary Session of the Eighth Central Committee of the CPC held in October 1957. P. 126

<sup>72</sup> The Chengdu Meeting was held by the CPC Central Committee in Chengdu, Sichuan Province on March 8-26, 1958. It was attended by central leading comrades, first secretaries of some provincial and municipal Party committees, and by leading comrades from the relevant ministries and commissions. Participants at the meeting discussed and adopted documents including the Suggestions on the Alternate (undeclared higher targets to strive for) Plan and Budget for 1958, the Suggestions on Expanding Local Industries and the Suggestions on Appropriately Merging Small Agricultural Cooperatives into Large Cooperatives. In his speech delivered at the meeting, Mao Zedong continued to criticize the opposition to rash advance and put forward the basic view for the general line—"Go all out, aim high and achieve greater, faster, better and more economical results in building socialism." P. 126

<sup>73</sup> This is an expression for the proneness to boasting and exaggeration during the "Great Leap Forward" in 1958. At the time, in order to achieve higher production quantity, many localities and departments concentrated manpower and resources to hurriedly engage in "launching satellites." This propagation and spread of boasting and exaggeration resulted in deception and waste of manpower and money. P. 128

<sup>74</sup> The Central Financial and Economic Group was established by the CPC Central Committee on June 10, 1958. This group was composed of Li Xiannian, Huang Kecheng, Deng Zihui, Nie Rongzhen, Li Xuefeng, Jia Tuofu, Wang Heshou and Zhao Erlu, with Chen Yun as its leader and Li Fuchun, Bo Yibo and Tan Zhenlin as its assistant leaders. The group was directly under the Political Bureau of the CPC Central Committee and the Secretariat of the CPC Central Committee and took charge of the financial and economic work of the whole country. But soon the "great leap forward" movement was initiated and the Group discontinued its work. PP. 133, 137, 148

<sup>75</sup> The CPC Central Committee held an enlarged meeting of the Political Bureau and then held the Seventh Plenary Session of the Eighth CPC Central Committee in Shanghai, from March 25 to April 5, 1959. At these meetings, the participants discussed and adopted the Draft National Economic Plan for 1959 and examined the consolidation of the people's communes. The plan set the output of steel at 18 million tons for 1959, of which 16.5 million tons were to be high quality steel. After the meetings, Mao Zedong entrusted Chen Yun to set a practicable target for iron and steel production. After careful investigation and study, Chen suggested in May that the target should be reduced to 13 million tons. The actual output of steel was 13.87 million tons. P. 137

<sup>76</sup> Li Fuchun (1900-75), a native of Changsha, Hunan Province, was then a member of the Political Bureau of the CPC Central Committee, vice leader of the Central Financial and Economic Group, Vice-Premier of the State Council and concurrently Minister in Charge of the State Planning Commission. PP. 138, 255

<sup>77</sup> Zhao Erlu (1905-67), a native of Guoxian County (now Yuanping County), Shanxi Province, was then a member of the Central Financial and Economic Group and Minister of the First Ministry of Machine-Building Industry. P. 138

<sup>79</sup> This refers to a type of iron which was produced by indigenous methods in the "Great Leap Forward" movement. P. 142

<sup>80</sup> This is now called the Capital Iron and Steel Company. P. 145

<sup>81</sup> This refers to a type of soft coal used for coking. P. 145

<sup>82</sup> Liu Shaoqi (1898-1969), a native of Ningxiang County, Hunan Province, was then Vice-Chairman of the CPC Central Committee and President of the People's Republic of

China.

PP. 147, 195, 205

<sup>82</sup> Wang Heshou, (1909- ), a native of Tangxian County, Hebei Province, was then member of the Central Financial and Economic Group and Minister of Metallurgical Industry.

P. 148

<sup>83</sup> Yao Yilin (1917-94), a native of Guichi, Anhui Province, served as Minister of Commerce and Deputy Director of the Finance and Trade Office of the State Council from 1961 to 1962. In June 1979 he was Deputy Secretary-General of the CPC Central Committee, Director of the General Office of the Central Committee and Secretary-General of the Financial and Economic Commission of the State Council. Later, he served as the Vice-Premier of the State Council. He was elected alternate member of the Political Bureau of the Central Committee and member of the Secretariat of the CPC Central Committee at the First Plenary Session of the Twelfth CPC Central Committee held in 1982. At the Fifth Plenary Session of the Twelfth CPC Central Committee held in 1985 he was elected member of the Political Bureau of the CPC Central Committee and member of the Standing Committee of the CPC Central Committee.

PP. 151, 214, 263, 333, 349

<sup>84</sup> The Third Ministry of Machine-Building Industry, then a ministry under the State Council, was established in September 1960 and renamed the Ministry of Aviation Industry in May 1982. In June 1993, China Aviation Industry Corporation was established.

P. 159

<sup>85</sup> A reference to the Beijing Quanjude Roast Duck Restaurant.

P. 163

<sup>86</sup> A reference to the Beijing Donglaishun Restaurant.

P. 163

<sup>87</sup> A reference to the Zhang Xiaoquan Scissors Plant in Hangzhou. The plant has expanded and has been renamed the Zhang Xiaoquan Scissors and Cutting Tool Company.

P. 163

<sup>88</sup> A reference to the 12-article Urgent Letter of Instruction Concerning the Current Policies for Rural People's Communes, issued by the CPC Central Committee on November 3, 1960. This document pointed out that the tendency to leap prematurely towards communism—a tendency characterized by requisition of property for collective economic units without compensation—should be resolutely opposed. Among other things, the document stipulated the following: the rural people's communes should institute the system of a three-level ownership with the production teams as the basic units; commune members should be allowed to retain small private plots and to engage in small-scale household sideline production; the principle of "to each according to his work" should be upheld; and work time should be combined with adequate rest periods. All this played a positive role in correcting the tendency to take a premature leap towards communism and in bringing about a change in the difficult rural situation prevailing at the time.

PP. 165, 203

<sup>89</sup> A reference to the 60-article Regulations on the Work in Rural People's Communes (Draft) formulated by the Central Committee of the Chinese Communist Party in March 1961. In view of the extreme egalitarianism existing between production brigades, between production teams and between commune members, the document laid down fairly systematic guidelines for correcting this kind of egalitarianism in the people's communes, reducing the excessively large size of the communes and production brigades and teams, checking the tendency of the communes to exercise rigid control over too many of the activities of their subordinate units, and for improving their systems of democracy and management. In May and June of the same year, the Central Committee prepared a revised draft for discussion and trial use, in which further stipulations were made concerning abolishment of the free supply system in the sphere of distribution and closure of public canteens. On February 13, 1962, the Central Committee issued a directive making the production teams the basic accounting units in the rural people's communes, in place of the production brigades. On September 27 of the same year, the Tenth Plenary Session of the Party's Eighth Central Committee formally adopted this revised draft. The implementation of this 60-article document played an important part in restoring the rural economy.

PP. 165, 190, 203



<sup>90</sup> A reference to the working conference held by the CPC Central Committee in Beijing from May 21 to June 12, 1961. The conference further studied ways to readjust the national economy and problems concerning the rural work in particular. It revised and adopted the Regulations on the Work in the Rural People's Communes (Revised Draft) for discussion and trial implementation, the Directive of the CPC Central Committee Concerning the Discussion and Trial Implementation of the Regulations on the Work in the Rural People's Communes (Revised Draft), the Regulations of the CPC Central Committee on Resolutely Correcting the Egalitarianism and Indiscriminate Transfer of Resources and Returning and Compensating What Has Been Unlawfully Taken, and other important documents. In order to better balance the relationships between industry and agriculture and between urban and rural areas, the conference decided to carry out the policy of reducing the number of staff and encouraging urban residents to move to rural areas. The conference discussed the four questions raised by Mao Zedong: Study and investigation, the mass line, returning what was unlawfully taken, and rehabilitation and punishment. The conference also discussed issues concerning commerce and the handicraft industry and formulated the Draft Regulations on Improvement of Commercial Work (for Trial Implementation) as well as the Draft Regulations on Some Policies Concerning Urban and Rural Handicrafts (for Trial Implementation).

P. 165

<sup>91</sup> A reference to the public grain and grain which was subject to unified purchase. P. 165

<sup>92</sup> Egalitarianism and indiscriminate transfer of resources were the chief components of the "wind of communization" in the early days of the movement to organize rural people's communes in 1958. Egalitarianism refers to bringing the rich and poor production teams in communes to the same economic level and distributing equally regardless of the principle of "to each according to his work." Transfer refers to counties and communes transferring property and labour from production teams (or commune members) without compensation, disregarding the principle of exchange at equal value. This practice seriously damaged rural productive forces. On June 19, 1961, the CPC Central Committee drew up the Regulations on Correcting the Mistakes of Egalitarianism and Indiscriminate Transfer of Resources and on Completely Returning What Was Unlawfully Taken Away or Paying Compensation for It.

PP. 166, 175

<sup>93</sup> A reference to the policy quickly taken up at that time to conscientiously rehabilitate all Party members and cadres who had been criticized or punished more or less unjustifiably during the movements to bring down the "white banner," combat Right deviation, rectify the work style, consolidate the communes and to accomplish the tasks that should have been accomplished during the democratic revolution.

P. 166

<sup>94</sup> A reference to the policy adopted at that time to punish as necessary the leading cadres who had made serious mistakes in the Great Leap Forward Movement and the movement to establish rural people's communes.

P. 166

<sup>95</sup> Hangzhou, Jiaxing and Huzhou are very productive areas in China.

P. 168

<sup>96</sup> This refers to the counties of Wuxian, Changshu, Taicang, Kunshan, Wujiang and Jiangyin which were under the jurisdiction of Suzhou Subprovincial Administrative Region. In January 1983, Changshu County was made a city (at the county level and under the jurisdiction of Jiangsu Province); Jiangyin County was later put under the jurisdiction of Wuxi.

P. 168

<sup>97</sup> A reference to the rectification campaign conducted nationwide in stages and by groups before and after the Ninth Plenary Session of the Eighth CPC Central Committee, held in January 1961. The purpose of the campaign was to help cadres raise their ideological and political level, improve their work methods and style of work and purify the Party organization with a view to promoting production.

P. 171

<sup>98</sup> During the mass movement to produce more iron and steel launched in 1958, the policy of building small enterprises employing indigenous methods and following the mass line and



the policy of building small enterprises employing modern methods and following the mass line were formulated. PP. 171, 172

<sup>99</sup> A reference to large-scale enterprises that employed modern methods and followed the mass line. P. 171

<sup>100</sup> The Longyan Iron Mine is in Longguan County (now Chicheng County) and Xuanhua County, Hebei Province. P. 172

<sup>101</sup> Xue Muqiao, (1904-), a native of Wuxi, Jiangsu Province, was then Vice-Minister of the State Planning Commission. P. 175

<sup>102</sup> A reference to low-lying and water-logged farmland. P. 176

<sup>103</sup> This was then a special administrative district in Zhejiang Province. In 1970, it became Jiaxing Prefecture which was abolished in 1983. Later, Jiaxing city was a prefectural-level city with Jiashan, Pinghu, Haining, Haiyan and Tongxiang counties under its jurisdiction. In 1981, Jiaxing County became part of Jiaxing City. P. 176

<sup>104</sup> This refers to the ten counties of Shanghai, Jiading, Baoshan, Chuansha, Nanhui, Fengxian, Songjiang, Jinshan, Qingpu and Chongming. P. 181

<sup>105</sup> A reference to high-lying farmland. P. 183

<sup>106</sup> This refers to cotton and hemp. P. 187

<sup>107</sup> See Note 96 in this volume. P. 188

<sup>108</sup> This is a kind of long-grained nonglutinous rice. Foreign long-grained nonglutinous rice was imported from Southeast Asian countries. P. 189

<sup>109</sup> This refers to auxiliary areas where it is possible to plant crops, such as the edges of rocky land and fields, the land surrounding farms, houses and fences, in graveyards, roadsides, the banks of ponds, and in ditches and dikes. P. 190

<sup>110</sup> This refers to the enlarged meeting of the Political Bureau of the CPC Central Committee, convened in Zhengzhou, Henan Province from February 27 to March 5, 1959. The major topics at the meeting were the questions of ownership in the people's communes and the tendency to effect a premature transition to communism. The meeting formulated the following principles: instituting the system of decentralization of powers at the people's communes, with management and economic accounting carried out at three levels (commune, production brigade and production team), with the production team as the basic unit (equal to the former "advanced agricultural producers' cooperative"); and, recognizing within the commune the differences in income among individual production brigades, among production teams and among commune members, and carrying out the principles of distribution according to work and fairness in transactions. The meeting worked out "Some Regulations Concerning the Management System of the People's Commune (Draft)." P. 190

<sup>111</sup> This refers to the enlarged working conference convened by the CPC Central Committee in Beijing from January 11 to February 7, 1962. It was attended by more than 7,000 persons—leading members of the Central Committee and its sub-bureaus; Party committee members from the various provinces, municipalities, autonomous regions, prefectures and counties; people from major factories, mines and other large enterprises; and those from army units. It is also called the "7,000-person conference." Liu Shaoqi delivered a report on behalf of the CPC Central Committee in which he made an initial summary of the work experience, both positive and negative, since the "Great Leap Forward" of 1958, analysed the major shortcomings and mistakes in the work of the previous years, and pointed out that the major task facing the entire Party was to conduct a readjustment. Mao Zedong delivered an important speech, emphasizing the necessity of improving the system of democratic centralism, of giving full play to democracy both inside and outside the Party, and of deepening people's understanding of the laws of socialist construction based on reviewing both positive and negative experience. He also made a self-criticism, assuming responsibility for the

shortcomings and mistakes in the work of the previous years.

PP. 193, 203

<sup>112</sup> This refers to crop rotation on the same piece of land.

P. 199

<sup>113</sup> See "Conclusions on the Repulse of the Second Anti-Communist Onslaught," *Selected Works of Mao Zedong*, Eng. ed., FLP. 1975, Vol. II. p.463

P. 199

<sup>114</sup> Li Xiannian (1909-92), a native of Huang'an (now Hong'an), Hubei Province, served as a member of the Political Bureau of the CPC Central Committee and of the Secretariat of the Central Committee, as Vice-Premier of the State Council, and was concurrently Minister of Finance in 1962. In 1978, he became Vice-Chairman of the CPC Central Committee and Vice-Premier of the State Council. He served as President of the People's Republic of China from 1983 to 1988. He was the Chairman of National Committee of the CPPCC from 1988.

PP. 202, 237, 251, 259, 337, 352, 369

<sup>115</sup> This refers to the general line of socialist construction, that is, going all out, aiming high and achieving greater, faster, better and more economical results in building socialism, advocated by Mao Zedong and approved by the Second Session of the Eighth National Congress of the Chinese Communist Party convened in May 1958. This general line reflected the common and urgent expectation of the broad masses of people to overcome the backwardness in the economy and culture, but it did not take into consideration objective economic laws.

P. 203

<sup>116</sup> This refers to the Directive of the CPC Central Committee on Current Problems in Industry. The main points were 1) carry out the principle of readjustment, consolidation, filling out the national economy and raising its standards; 2) exercise highly centralized, unified leadership in industrial management; 3) on the basis of overall planning, grasp the key link and concentrate on solving problems; 4) work hard to increase the output of daily necessities and the means of agricultural production so as to stabilize the market; 5) strengthen economic cooperation; 6) rectify enterprise management and practise a strict responsibility as well as business accounting system; 7) uphold the mass line and improve work style; and 8) heighten a sense of discipline.

P. 203

<sup>117</sup> The "Seventy-Articles" refers to the Draft Regulations on Work in State-Owned Industrial Enterprises formulated by the CPC Central Committee in September 1961. Following the "Great Leap Forward" of 1958, chaotic management of enterprises became evident. In order to change that situation, this document identified the main task as rectifying the state-owned industrial enterprises and defined the methods to be adopted to this end. It called for the establishment and improvement of systems of responsibility at all levels, of rules and regulations, and it emphasized the principles of planned, technical and labor management, business accounting, distribution according to work, and material benefits for workers and office staff. Discussion on and trial implementation of this document were helpful in speeding up the recovery and development of China's industry.

P. 203

<sup>118</sup> This refers to the ten-year programme for the national economy between 1963 and 1972. This was a tentative blueprint only.

PP. 205, 212

<sup>119</sup> In the early days of the Lushan Meeting held in 1959, Mao Zedong pointed out in his speech that, in the past, the plan for the national economy was arranged in the order of priority of heavy industry, light industry and then agriculture, but that now we should consider changing it to agriculture first, light industry and then heavy industry, thereby making heavy industry serve light industry and agriculture. This means that in formulating the national economic plan, we should first consider the needs of agricultural production and then make arrangements for light industry according to market needs and taking into account the quantities of raw materials agriculture can provide for it. Finally, we should determine a growth rate and scale for heavy industry based on those of agriculture and light industry. By doing so, we can avoid a lopsided development of heavy industry and a disproportionate development of the national economy. This is the principle we should follow in making plans

for national economic development proposed by Mao Zedong, who theorized from the actual fact that China was an agricultural country and reviewed both the positive and negative experience that have come to light during socialist construction, both at home and abroad.

PP. 210, 247

<sup>120</sup> After the Standing Committee of the Political Bureau of the CPC Central Committee held its enlarged meeting in Beijing in February 1962, it set out to consider the re-establishment of the Central Financial and Economic Group and to make some changes in its membership. On April 19 of the same year, the CPC Central Committee decided to appoint Chen Yun as Chief of the Central Financial and Economic Group, with Li Fuchun and Li Xiannian as the deputy chiefs, and with Zhou Enlai, Tan Zhenlin, Bo Yibo, Luo Ruiqing, Cheng Zihua, Gu Mu, Yao Yilin and Xue Muqiao as members.

P. 212

<sup>121</sup> On September 30, 1960, the Report on Control Figures in the National Economic Plan for 1961, prepared by the Leading Party Group of the State Planning Commission, was approved and transmitted by the CPC Central Committee. In view of the severe difficulties in the economy following the “Great Leap Forward,” the Report stated that priority should be given to agriculture in 1961 and that the principle of “readjustment, consolidation, filling out the national economy and raising standards” (later known as the Eight-Character Principle) should be implemented in the course of the development of production and construction. In January 1961 this principle was formally adopted at the Ninth Plenary Session of the Eighth Party Central Committee. From then on, the national economy entered the stage of readjustment. We adopted major measures such as vigorously restoring and developing agricultural production, cutting down on capital construction and heavy industrial production, increasing production of manufactured goods for daily use, reducing the number of workers and office staff and the urban population, and stabilizing the market. As a result, by 1965 the national economic readjustment had been basically completed throughout the country as planned, and industrial and agricultural production and the financial and economic situation had improved significantly.

PP. 212, 250, 256

<sup>122</sup> The Third Five-Year Plan is the shortened term for the Third Five-Year Plan for National Economic Development of the People’s Republic of China. It was originally intended to cover the period from 1963 to 1967. However, during the period between the Enlarged Working Conference of the CPC Central Committee held in January 1962 and its Working Conference convened in May of the same year, the Central Committee, proceeding from an analysis of the international and domestic situation and of the execution of the readjustment plan beginning in 1961, envisaged that the focus for the period of the Third Five-Year Plan should be on readjustment and rehabilitation of the national economy. Later, as the national economy recovered fairly rapidly, Mao Zedong proposed that the three years from 1963 through 1965 be a transition period for carrying out readjustment and laying a foundation for the Third Five-Year Plan, to begin in 1966. This proposal was approved by other leading comrades of the central leadership.

P. 212

<sup>123</sup> This Central Working Conference, also known as the Enlarged Meeting of the Standing Committee of the Political Bureau of the CPC Central Committee, was held in Beijing from May 7 to 11, 1962. It discussed the Report on Examining the Readjustment of the Plan for 1962 submitted by the Central Financial and Economic Group. The report analyzed the financial and economic situation at the time, concluded that we should continue the extensive readjustment of the national economy and urged an overall balance among the different sectors of the national economy. On May 26 the same year, the CPC Central Committee approved this report.

P. 212

<sup>124</sup> The “July 7th Incident” is also known as the Lugouqiao Incident. Lugouqiao, over 10 kilometres southwest of Beijing, is a gateway to the city. On July 7, 1937, the Japanese invading forces attacked the Chinese garrison at Lugouqiao. Influenced by the Chinese Communist Party’s stand in resisting Japan and encouraged by the vigorous nationwide



anti-Japanese movement, the Chinese troops there resisted the Japanese invaders, which marked the beginning of the Chinese people's eight-year heroic War of Resistance Against Japan. Hence, the "July 7th Incident" is also called the July 7th War of Resistance. PP. 217,

235

<sup>125</sup> Zhang Zhidong (1837-1909) a native of Nanpi, Zhili (now Hebei Province), was one of the leaders of the Westernization Movement in the late Qing Dynasty. In 1884, he was appointed Governor of Guangdong and Guangxi Provinces and initiated the establishment of modern industries. In 1889, he served as Governor of Hunan and Hubei Provinces, and he established the Hanyang Iron Plant and the Hubei Firearms Plant. He set up four bureaus in charge of weaving, spinning, filature and flax processing, and he devoted much energy to the construction of the railway between Lugouqiao and Hankou. P. 217

<sup>126</sup> This refers to the Agricultural and Forestry Office under the State Council. P. 218

<sup>127</sup> A reference to the Financial and Trade Office of the State Council. PP. 218, 255

<sup>128</sup> Huang Jing (1911-58), a native of Shaoxing, Zhejiang Province, was Minister of the First Ministry of Machine-Building Industry at that time. P. 219

<sup>129</sup> Chen Xiyu (1911- ), a native of Huozhou (now Huoxian County), Shanxi Province, was then President of the People's Bank of China. P. 220

<sup>130</sup> Qiao Peixin (1912- ), a native of Dalad Banner, Inner Mongolia, was then Vice-President of the People's Bank of China. P. 221

<sup>131</sup> Richard Nixon (1913-94), American Republican, was then U.S. President. PP. 221,

230

<sup>132</sup> John Connally, served as Secretary of the Treasury of the United States from 1971 to 1972 and then as Advisor to the President. P. 221

<sup>133</sup> George Shultz was at that time Secretary of the Treasury of the United States. P. 221

<sup>134</sup> The Border Region currency refers to notes issued by the Bank of the Shaanxi-Gansu-Ningxia Border Region in 1941 and circulated within that Region. After the bank was incorporated into the Northwest Peasants' Bank of the Shanxi-Suiyuan border area in January 1948, it ceased issuing these notes. These notes remained in circulation along with the notes issued by the Northwest Peasants' Bank. The exchange rate was 20 yuan of the former to 1 yuan of the latter. P. 222

<sup>135</sup> In order to exert monetary control throughout the country and stop the circulation of silver dollars, the Kuomintang government, on November 4, 1935, endorsed paper notes issued by the Central Bank, the Bank of China, the Bank of Communications and later the Farmers' Bank as a unified currency for the entire country. During the War of Resistance Against Japan and the War of Liberation, all the Kuomintang areas suffered from galloping inflation and the currency endorsed by the Kuomintang was devalued sharply. On August 19, 1948, the "gold yuan" currency was issued as a substitute. P. 222

<sup>136</sup> Li Yumin, was then chief of the Third Section of Overseas Business Administration of the People's Bank of China. P. 222

<sup>137</sup> A reference to commodities or stocks bought or sold upon agreement of delivery in time to come. P. 224

<sup>138</sup> The Guangzhou Commodities Fair is also known as the China Export Commodities Fair. Begun in 1957 as a regular commodities fair, it is sponsored jointly by Chinese foreign trade companies. It is held in the spring and autumn of each year—the Spring Commodities Fair and the Autumn Commodities Fair. As they are held in Guangzhou, it is also called Guangzhou Commodities Fair. P. 228

<sup>139</sup> Xin-Ma refers to Singapore and Malaysia. P. 229

<sup>140</sup> It is also known as Imperial Chemical Industries Ltd., a British chemical industry monopoly. Its head office is in London. P. 230



<sup>141</sup> This refers to the powerful movement of protest taking place at Tiananmen Square in Beijing on April 5, 1976, a movement to mourn the late Zhou Enlai and oppose the Gang of Four. In essence, the movement was a demonstration of support for the Party's correct leadership as represented by Deng Xiaoping. It laid a foundation for widespread popular support for the subsequent overthrow of the counter-revolutionary Jiang Qing clique. At that time, the Political Bureau of the CPC Central Committee and Mao Zedong made an erroneous assessment of the Tiananmen Incident, considering it to be counter-revolutionary, and dismissed Deng Xiaoping from all his posts inside and outside the Party. Following the smashing of the Gang of Four in July 1977, the Third Plenary Session of the Party's Tenth Central Committee adopted a resolution restoring Deng Xiaoping to all his former posts inside and outside the Party. In December 1978, the Third Plenary Session of the Party's Eleventh Central Committee criticized the mistaken "two whatevers," decided to cancel the erroneous documents issued by the Central Committee on the "counter the Right deviationist trend to reverse the correct verdict" movement and on the Tiananmen Incident, and formally proclaimed the rehabilitation of Deng Xiaoping and the reversal of the assessment of the Tiananmen Incident. PP. 233, 236

<sup>142</sup> Hua Guofeng (1921- ), a native of Jiaocheng, Shanxi Province, was elected First Vice-Chairman of the CPC Central Committee and Premier of the State Council in April 1976. In October of the same year, the Political Bureau of the Central Committee took drastic measures to defeat the Gang of Four, during which time, he, Ye Jianying and Li Xiannian played an important role. Afterwards, he served as Chairman of the Central Committee and the Central Military Commission. In September 1980, at its Third Session, the Fifth National People's Congress accepted his resignation as Premier of the State Council. In view of the fact that he stuck to the erroneous principle of the "two whatevers" and continued to affirm the wrong theories, policies and slogans of the "cultural revolution" after the downfall of the Gang of Four, the Sixth Plenary Session of the Eleventh CPC Central Committee unanimously agreed that he should also resign as Chairman of the CPC Central Committee and the Central Military Commission in June 1981. PP. 234, 243

<sup>143</sup> In 1936, while the movement against Japanese aggression and for national salvation surged forth throughout the country, the North Bureau of the CPC Central Committee, in order to overcome the lack of cadres and as approved by the CPC Central Committee, instructed that Bo Yibo and 60 other comrades could go through the formalities required by the enemy in order that they might be released from prison. The Central Committee had already concluded that these comrades had not behaved incorrectly. However, in March 1967, after the "cultural revolution" began, Lin Biao, Kang Sheng, Jiang Qing and others, aiming at usurping the supreme Party and state leadership, labelled Bo Yibo and the other 60 comrades as a "renegade clique." This was a major injustice. On December 16, 1978, the CPC Central Committee approved the "Investigation Report on the Case of 61 People" submitted by the Organization Department of the Central Committee, marking the thorough reversal of this injustice. P. 234

<sup>144</sup> The self-examination centre was a reactionary organ which was used by the Kuomintang government to persecute the members of the Chinese Communist Party, the revolutionary masses and patriotic democratic personages, or to coerce them to change affiliation. P. 234

<sup>145</sup> On July 7, 1937, the Organization Department of the Central Committee adopted the "Decision on Party Members Who Surrendered Themselves." Article 3 stipulated: Comrades who had expressed willingness to serve their prison sentence and to be sent to a Kuomintang government self-examination centre had to go through certain formalities of surrender or fill out anti-communism statements before being allowed to leave the prison. If they filled out such forms and left the prison with the permission of the Party organization, their Party membership should be reinstated. If they went through such procedures without Party permission and were released, their membership should also be reinstated after they have been

tested through work.

P. 234

<sup>146</sup> This refers to the “Provisional Methods for Dealing with Those Who Went Through Formalities When Leaving the Prison,” adopted by the CPC Central Committee on July 22, 1941. (These formalities included writing statements of repentance and declaring one’s resolution to withdraw from the Party and to fight the Communist Party.) Its Article 2 stipulated: If a Communist Party member did not betray the Party after being arrested and is resolute in his desire to work for revolution after being released or rebated on bail, he should not be considered a traitor because of the fact that he or his family members filled out documents such as “repentance” and “making a fresh start,” which was a formality one had to go through before being released from prison. The CPC Central Committee had no specific policy on this at the time. Therefore, those Party members who were restored to Party membership after examination and with the approval of organizations at and above the level of Prefectural Party Committee should be allowed to retain their membership. Those who had not been restored or who were again expelled from the Party after their membership had been restored should be allowed to reinstate their Party membership upon request. However, a statement about the case should be included in their Party membership form so as to differentiate those who refused to go through this formality and insisted on leaving prison unconditionally.

P. 235

<sup>147</sup> Tao Zhu (1908-69), a native of Qiyang, Hunan Province, joined the Communist Party of China in 1926. In May 1933, having been exposed by a traitor, he was arrested in Shanghai by the Kuomintang. He was kept at the Shanghai Public Security Bureau and then put into Nanjing Prison and sentenced to life imprisonment. He struggled resolutely against the enemy in jail. After the outbreak of the War of Resistance Against Japan, he was rescued from the prison by the Party organization. However, he was persecuted to death by the Lin Biao and Jiang Qing counter-revolutionary clique during the “cultural revolution.” In December 1978, the Third Plenary Session of the Party’s Eleventh Central Committee decided to reverse the erroneous judgement made against Tao Zhu and affirmed his contribution to the Party and to the people.

P. 235

<sup>148</sup> Wang Heshou, born in 1909, a native of Tangxian County, Hebei Province, joined the Communist Party of China in 1925. In August 1933 he was again arrested by the Kuomintang government. He was sentenced and was put in Nanjing Prison. He struggled resolutely against the enemy. After the outbreak of the War of Resistance against Japan, he was rescued from prison by the Party organization. But during the “cultural revolution” he was smeared as “capitalist roader” and “traitor” and was put into prison on a long sentence. In 1978, the Organization Department of the Central Committee made a decision to reverse the wrong judgement made against him.

P. 235

<sup>149</sup> Peng Dehuai (1898-1974), a native of Xiangtan, Hunan Province, joined the Chinese Communist Party in 1928. He served as Commander-in-Chief of the Third Army Group of the Chinese Workers’ and Peasants’ Red Army, Commander of the Shaanxi-Gansu Detachment of the Red Army, Deputy Chief Commander of the Eighth Route Army, Deputy Chief Commander of the Chinese People’s Liberation Army, Commander and Political Commissar of the First Field Army, the First Secretary of Northwest Bureau of the CPC Central Committee, Chairman of the Northwest Military and Administrative Council, Vice-Chairman of the Central Military Commission, Commander and Political Commissar of the Chinese People’s Volunteers, Vice-Premier of the State Council and concurrently as Minister of the Ministry of National Defence. At the enlarged meeting of the Political Bureau of the CPC Central Committee and the Eighth Plenary Session of the Eighth Central Committee held during July and August 1959, Mao Zedong concluded by criticising Peng Dehuai and passing the “Resolution on the Mistakes of the Anti-Party Clique Headed by Comrade Peng Dehuai.” During the “cultural revolution” he died of persecution by the counter-revolutionary cliques of Lin Biao and Jiang Qing. In December 1978, the Third Plenary

Session of the Eleventh Central Committee passed a resolution to cancel the erroneous conclusion drawn about Peng Dehuai and to affirm his great contribution to the Party and the people. P. 235

<sup>150</sup> “Out of the Silence” is a four-act play written by Zong Fuxian in 1978 which eulogized the Tiananmen Incident. P. 236

<sup>151</sup> Kang Sheng (1898-1975) was a native of Jiaonan, Shandong Province. In December 1978, the Third Plenary Session of the Eleventh Central Committee passed a resolution placing Kang Sheng under investigation. Based on irrefutable evidence collected through a great deal of work, the Central Commission for Discipline Inspection discovered that Kang Sheng, a politically very base person, had committed serious crimes through his direct involvement in the counter-revolutionary plots of Lin Biao and Jiang Qing to usurp the supreme leadership of the Party and government power during the “cultural revolution.” On October 16, 1980, the CPC Central Committee decided to cancel a memorial speech for Kang Sheng and to expel him from the Party. P. 236

<sup>152</sup> This forum on principles was held by the State Council in Beijing from July 6 to September 9, 1978. The purpose of this forum was to discuss how to accelerate China’s socialist modernization drive. It was pointed out at the forum that in order to speed up the socialist modernization drive, China must use foreign funds and introduce advanced technologies and equipment from other countries. However, this forum gave way to overanxiousness for quick results. PP. 237, 251

<sup>153</sup> Chen Duxiu (1879-1942) was a native of Huaining (now Anqing City), Anhui Province. In September 1915, he became chief editor of the journal *Youth*, later renamed *New Youth*. In 1918, together with Li Dazhao he founded *Weekly Review* and advocated “new culture.” He was one of the main leaders of the new culture movement in the May 4th Movement in 1919. After that movement, he accepted and propagated Marxism and became one of the main founders of the Chinese Communist Party. He was its principal leader during its first six years. In the later period of the First Revolutionary Civil War, Chen made serious Right capitulationist mistakes. Afterwards, he became pessimistic about the future of the revolution, accepted the views of the Trotskyites and set up an inner-Party faction which was antagonistic to the rest of the Party. He was expelled from the Party in November 1929, after which he openly organized Trotskyite activities. In October 1932, he was arrested by the Kuomintang. He was released in August 1937. He died of illness in Jiangjin, Sichuan Province in May 1942. PP. 237, 283

<sup>154</sup> This refers to the Working Conference called by the CPC Central Committee in Lushan, Jiangxi Province from August 23 to September 16, 1961. The conference studied problems concerning industry, grain production, finance, trade and education. It approved the “Directive of the CPC Central Committee on Current Problems in Industry,” the “Draft Regulations on the Work in State-owned Industrial Enterprises” (Seventy Articles on Industrial Work) and the “Draft Provisional Regulations on Work in Institutions of Higher Learning Directly Under the Ministry of Education of the People’s Republic of China” (Sixty Articles on Work in Institutions of Higher Learning). P. 238

<sup>155</sup> China and the United States published a joint communiqué on February 28, 1972 in Shanghai during American President Richard Nixon’s first visit to China. The Joint Communiqué stated that “There are essential differences between China and the United States in their social systems and foreign policies. However, the two sides agreed that countries, regardless of their social systems, should conduct their relations on the principles of respect for the sovereignty and territorial integrity of all states, non-aggression against other states, non-interference in the internal affairs of other states, equality and mutual benefit, and peaceful coexistence.” Both sides stated that “Neither should seek hegemony in the Asia-Pacific region and each is opposed to efforts by any other country or group of countries to establish such hegemony.” Both sides expounded their respective positions and attitudes regarding the



international situation. The Chinese side reaffirmed its position that “The Government of the People’s Republic of China is the sole legal government of China; Taiwan is a province of China; the liberation of Taiwan is China’s internal affair in which no other country has the right to interfere; and all U.S. forces and military installations must be withdrawn from Taiwan. The Chinese Government firmly opposes any activities which aim at the creation of “one China, one Taiwan,” “one China, two governments,” “two Chinas,” or “independent Taiwan” or advocate that “the status of Taiwan remains to be determined.” The U.S. side declared that “The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan issue by the Chinese themselves. With this prospect in mind, it affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes.” The two sides agreed that it is desirable to broaden the understanding between the two peoples. The two sides agreed that they will maintain concrete consultations in order to further normalization of relations between the two countries and will continue to exchange views on issues of common interest. The Joint Communiqué opened up new prospects for the relations between the two countries. P. 238

<sup>156</sup> The Third Plenary Session of the Eleventh CPC Central Committee was held in Beijing on December 18-22, 1978. The session marked a crucial turning point of far-reaching significance in the history of our Party since the founding of the People’s Republic. This session put an end to the situation in which the Party had been advancing haltingly in its work since October 1976 and began to correct the “Left” errors of the “cultural revolution” and earlier. The session criticized the erroneous notion of the “two whatevers” and affirmed the need to have a correct understanding of Mao Zedong Thought as an integral whole and as a scientific system. It recognized the great importance of the ongoing public debate concerning whether or not practice was the sole criterion for testing truth and put forth the guiding principles of “emancipating minds, using our heads, seeking truth from facts and uniting as one in looking to the future.” The session discarded the slogan “Taking class struggle as the key link,” which was now unsuitable in a socialist society, and made the strategic decision to concentrate on socialist modernization. It pointed out that the Party should solve the problem of serious imbalance between major sectors of the economy. It decided to step up agricultural development and set the task of improving socialist democracy and the socialist legal system. It examined a large number of cases in Party history in which false or exaggerated charges had been made against people or in which charges had been dealt with incorrectly, and redressed the injustices that had been done. It also settled the controversy over the achievements and mistakes of some prominent Party leaders, determining which of their actions had been right and which wrong. At this session the Party Central Committee also elected new members to the Party’s central leadership. These momentous changes demonstrated that the Party had re-established the correct line of Marxism ideologically, politically and organizationally. Since then, the Party has taken the initiative to set things right and has been able to gradually solve many problems left over since the founding of the People’s Republic. It has also addressed new problems cropping up in the course of practice and carried out the heavy tasks of construction and reform, so that things are going very well in both the economic and political spheres. PP. 240, 274, 290, 310, 315, 330, 371

<sup>157</sup> A reference to the Working Conference held by the CPC Central Committee in Beijing from November 10 to December 16, 1978. The conference made full preparations for the Third Plenary Session of the Eleventh Central Committee. PP. 240, 249

<sup>158</sup> See “The Situation in the Summer of 1957,” written by Mao Zedong in July 1957. P. 240

<sup>159</sup> The Yan’an Rectification Movement was a Party-wide Marxist-Leninist ideological



education movement launched by the Chinese Communist Party in 1942. The main tasks were: Fight subjectivism in order to rectify the style of study, fight sectarianism in order to rectify the style in Party relations, and fight Party stereotypes in order to rectify the style of writing. Through this movement, the whole Party became more conscious of our basic orientation, i.e., integration of the universal truth of Marxism-Leninism with the concrete practice of the Chinese revolution. PP. 240, 282

<sup>160</sup> The Seventh National Congress of the Chinese Communist Party was held in Yan'an from April 23 to June 11, 1945. At the Congress, Mao Zedong made a political report entitled "On Coalition Government"; Zhu De delivered a military report entitled "The Battlefront of the Liberated Areas"; Liu Shaoqi presented "Report on the Revision of the Party Constitution"; and Zhou Enlai made an important speech entitled "On the United Front." The Congress decided that the Party line would be "boldly to mobilize the masses and expand the people's forces so that, under the leadership of our Party, they will defeat the Japanese aggressors, liberate all the people of China and build a new-democratic China." The Congress also adopted a new Party Constitution and elected a new Party Central Committee. The new Constitution defined Mao Zedong Thought—the integration of the theory of Marxism-Leninism with the practice of the Chinese revolution—as the guiding principle for all the work of the Chinese Communist Party. The congress was one of unity and victory. It laid a foundation for a nationwide victory of new-democratic revolution. P. 241

<sup>161</sup> The Ninth National Congress of the Chinese Communist Party was held in Beijing from April 1 to 24, 1969. This congress legitimized the erroneous theories and practices of the "cultural revolution" and reinforced the positions of Lin Biao, Jiang Qing, Kang Sheng and others in the Party Central Committee. The guidelines of this congress were incorrect, ideologically, politically and organizationally. The Tenth National Congress of the Chinese Communist Party was held in Beijing on August 24-28, 1973. It perpetuated the "Left" errors of the Ninth Party Congress. P. 241

<sup>162</sup> The Eleventh National Congress of the Chinese Communist Party was held in Beijing on August 12-18, 1977. It played a positive role in exposing and criticizing the Jiang Qing counter-revolutionary clique and mobilizing the whole Party to build China into a modern, powerful socialist country. But because of historical limitations and the erroneous influence of Hua Guofeng at that time, the political report delivered to the Congress continued the affirmation of the mistaken theories, policies and slogans of the "cultural revolution" and thus played a negative role by obstructing the correction of the above-mentioned errors. P. 241

<sup>163</sup> A reference to the Constitution of the People's Republic of China adopted at the First Session of the Fifth National People's Congress on March 5, 1978. P. 241

<sup>164</sup> Georg Wilhelm Friedrich Hegel (1770-1831) was a German classical idealist philosopher. After he died, Hegelians were referred to as "old" or "young" Hegelians. The young Hegelians, also known as Left Hegelians, were the ideological representatives of Germany's radical bourgeoisie in the 1830s and the 1840s. P. 241

<sup>165</sup> The Brest-Litovsk peace treaty, which involved Soviet Russia and Germany, the Austro-Hungarian Empire and Bulgaria and Turkey, was concluded on March 3, 1918 in the city of Brest-Litovsk in western Russia. At the time, World War I was going on; Soviet Russia, Germany and the Austro-Hungarian Empire were at war. In accordance with the treaty, Soviet Russia had to relinquish about 1 million square kilometres of territory and pay an enormous indemnity. This was a revolutionary compromise made by the new-born Soviet regime in order to withdraw from the imperialist war and concentrate its forces on consolidating the victory it had achieved in the October Revolution. On November 13, 1918, after the defeat of Germany, the All-Russian Central Executive Committee abrogated the treaty. P. 242

<sup>166</sup> At the time of the October Revolution, Trotsky (1879-1940) was a member of the Political Bureau of the Central Committee of the Russian Social-Democratic Labour Party

(Bolshevik) and Chairman of the Petrograd Soviet. After the October Revolution, he assumed the office of Commissar of the People's Commissariat of Foreign Affairs and the People's Commissariat of the Army and Navy, Chairman of the Revolutionary Military Council, member of the Executive Committee of Communist International and other posts. In October 1926, a plenum of the Central Committee of the Communist Party of the Soviet Union (B.) dismissed him from the Political Bureau because he opposed Lenin's theories and lines on building socialism in the Soviet Union. In November 1927, he was expelled from the Party. In January 1929 he was deported from the Soviet Union. In August 1940 he was assassinated in Mexico. P. 242

<sup>167</sup> V. I. Lenin, "The Trade Unions, the Present Situation and Trotsky's Mistakes," *Collected Works*, Eng. ed., Progress Publishers, Moscow, 1966, Vol. 32, p. 24. While dealing with the December 30, 1920 discussion in his "The Party Crisis written on January 19, 1921 (Ibid., p. 48), Lenin pointed out, "I must correct another mistake of mine. I said: 'Ours is not actually a workers' state but a workers' and peasants' state.' Comrade Bukharin immediately exclaimed: 'What kind of a state?' In reply I referred him to the Eighth Congress of Soviets, which had just closed. I went back to the report of that discussion and found that I was wrong and Comrade Bukharin was right. What I should have said was: 'A workers' state is an abstraction. What we actually have is a workers' state, with this peculiarity, firstly, that it is not the working class but the peasant population that predominates in the country, and secondly, that it is a workers' state with bureaucratic distortions.' " P. 242

<sup>168</sup> Nikolay Bukharin (1888-1938) joined the Russian Social-Democratic Labour Party in 1906. After the October Revolution of 1917 he served as editor-in-chief of *Pravda*, member of the Political Bureau of the Central Committee of the CPSU (B.), member of the Executive Committee and of the Presidium of the Communist International. In July 1929 the Executive Committee of the Communist International dismissed him from the Executive Committee and the Presidium. In November of the same year a plenum of the Central Committee of the CPSU (B.) dismissed him from the Political Bureau. He was expelled from the Party in 1937 and executed in March of the following year. On February 4, 1988 the Supreme Court of the Soviet Union adopted a resolution to cancel the judgement on Bukharin and on June 21 of the same year the Central Committee of the Communist Party of the Soviet Union passed a resolution to reinstate his party membership. P. 242

<sup>169</sup> This war was waged during World War II by the people of the Soviet Union to fight the invasion of their country by fascist Germany and its allies. In June 1941, Germany launched a sudden attack on the Soviet Union. Under the leadership of the Party and the government headed by Stalin, the people of the Soviet Union heroically commenced the Great Patriotic War. In 1944 the Soviet troops launched the general counter-offensive, and in May 1945 they seized Berlin, forcing Germany to surrender unconditionally, hence the final victory for the Soviet Union's four-year-long Great Patriotic War. P. 242

<sup>170</sup> Adolf Hitler (1889-1945), the chief of the German fascists, became Prime Minister with the support of Germany's monopoly bourgeoisie in 1933. He claimed to be the Head of State the following year. He practised fascist rule, actively engaged in armament and prepared for war. In September 1939, his troops invaded Poland, provoking World War II. He committed suicide when Soviet troops encircled Berlin in April 1945. P. 242

<sup>171</sup> This means that one's work was rated as consisting of 70 per cent achievements and 30 per cent mistakes. P. 242

<sup>172</sup> Ye Jianying (1897-1986), a native of Meixian, Guangdong Province, was at the time Vice-Chairman of the CPC Central Committee, Vice-Chairman of the Central Military Commission and Chairman of the Standing Committee of the National People's Congress. In 1983 he resigned as Chairman of the Standing Committee of NPC. In 1984 he served as member of the Standing Committee of the Political Bureau of the CPC Central Committee and Vice-Chairman of the Central Military Commission. PP. 243, 269, 310, 334, 370

<sup>173</sup> A reference to Mao Yuanxin (1941- ), a native of Xiangtan, Hunan Province. At the time he was the “liaison man” between Mao Zedong and the Political Bureau of the Central Committee of the Chinese Communist Party. He was later arrested for his part in the Jiang Qing counter-revolutionary clique. P. 243

<sup>174</sup> After Yugoslavia was expelled from the Information Bureau of the Nine European Communist and Workers’ Parties in June 1948, it was subjected to an economic blockade and to political and military pressure. The Information Bureau was founded at a meeting held in Warsaw, Poland in September 1947 by representatives of the Communist and Workers’ Parties of Bulgaria, Rumania, Hungary, Poland, the Soviet Union, France, Czechoslovakia, Italy and Yugoslavia. In April 1956, the Bureau declared itself closed. P. 247

<sup>175</sup> This refers to the Report Outline on Revising the Plan for 1979, submitted by the Leading Party Members’ Group of the State Planning Commission on March 18, 1979. P. 250

<sup>176</sup> Gu Mu, born in 1914, was a native of Rongcheng, Shandong Province. He was then the Vice-Premier of the State Council and concurrently the Director of State Capital Construction Commission. P. 251

<sup>177</sup> Cheng Shiqing was born in Xinxian, Henan Province in 1918. During the “cultural revolution,” he was the First Secretary of the Provincial Party Committee of Jiangxi Province, deputy political commissar of Fuzhou Military Region and the political commissar of Military Region of Jiangxi Province. He committed serious errors and was dismissed from his posts in 1971. P. 252

<sup>178</sup> Yu Qiuli, born in 1914, a native of Ji’an, Jiangxi Province, was then member of the Political Bureau of the CPC Central Committee, Vice-Premier of the State Council and, concurrently, Director of the State Planning Commission. PP. 252, 261

<sup>179</sup> Compensation trade constitutes a kind of trade in which foreign funds are used to import machines, equipment and technology, to be repaid with products or other commodities by instalment. P. 254

<sup>180</sup> The Financial and Economic Commission of the State Council was an organ in charge of formulating financial and economic policies and principles and deciding major financial and economical issues. The Financial and Economic Commission was composed of the following 13 members: Chen Yun (director), Li Xiannian (deputy director), Yao Yilin (secretary general), Yu Qiuli, Wang Zhen, Fang Yi, Gu Mu, Bo Yibo, Wang Renzhong, Chen Guodong, Kang Shien, Zhang Jingfu and Jin Ming. The Commission began its work in March 1979 and was abolished when the Central Financial and Economic Leading Group was formed in March 1980. PP. 254, 255

<sup>181</sup> This refers to 156 large and medium-sized industrial projects which, according to the agreements signed during the First Five-Year Plan period between the Soviet Union and China, were to be constructed with the help of the Soviet Union. But in 1960 the leaders of the Soviet Union unilaterally tore up the agreements signed with China. Only 150 projects were launched. PP. 254, 283, 357

<sup>182</sup> Wang Zhen (1908-93), a native of Liuyang, Hunan Province, was then a member of the Political Bureau of the CPC Central Committee and Vice-Premier of the State Council. P. 255

<sup>183</sup> Wang Xueming (1916-78), a native of Shuangcheng, Heilongjiang Province, was then Vice-Minister of Finance. P. 255

<sup>184</sup> The Central Working Conference was held in Beijing from April 5 to 28, 1979. The participants at the conference discussed mainly economic problems. In view of the effects of “Left” deviationist errors on our economic work and the serious imbalance in the national economy, the conference proposed the principle of “readjustment, restructuring, consolidation and improvement” of the national economy to be carried out in three years so that the



national economy might develop steadily during a course of readjustment and a solid foundation for future development might be built. P. 256

<sup>185</sup> A reference to the place where people put up big-character posters in the street. Later, a handful of persons with ulterior motives made use of this to disrupt social order and public security. On December 6, 1979, Beijing became the first city to take restrictive measures. Later, in accordance with a resolution adopted at the Third Session of the Fifth National People's Congress on September 10, 1980, Article 45 of the Constitution of the People's Republic of China was revised. This meant annulment of the original stipulation in Article 45 which stated that citizens "have the right to speak out freely, air views fully, hold great debates and write big-character posters." A ban was then imposed on big character posters in the street. P. 256

<sup>186</sup> A reference to the Babaoshan Cemetery in Beijing. PP. 257, 270

<sup>187</sup> A reference to the Report on Arrangements for the Construction of the Baoshan Iron and Steel Company submitted to the Central Financial and Economic Commission and to the State Council by the State Planning Commission, the State Economic Commission, the State Capital Construction Commission, the Ministry of Metallurgical Industry, the Ministry of Foreign Trade, the First Ministry of Machine-Building Industry and the People's Bank of China on May 9, 1979. On May 11, 1979 the report was approved and issued by Gu Mu, Vice-Premier of the State Council and Minister of the State Capital Construction Commission. P. 258

<sup>188</sup> Tang Ke (1918- ), a native of Yancheng, Jiangsu Province, was then Minister of Metallurgical Industry. P. 259

<sup>189</sup> Han Guang (1912- ), a native of Qiqihar City, Heilongjiang Province, was then Vice-Minister of the State Capital Construction Commission. P. 260

<sup>190</sup> Ye Zhiqiang (1923- ), a native of Huaiyang, Henan Province, was then Vice-Minister of Metallurgical Industry. P. 260

<sup>191</sup> Chen Jinhua (1919- ), a native of Qingyang, Anhui Province, was then Deputy Secretary of Shanghai Municipal Party Committee, Vice-Mayor of Shanghai and director of the municipal planning committee. P. 260

<sup>192</sup> Deng Xiaoping (1904-97), a native of Guang'an, Sichuan Province, served as Vice-Chairman of the CPC Central Committee, Vice-Chairman of the Central Military Commission and Vice-Premier of the State Council after 1977. He was member of the Standing Committee of the Political Bureau of the CPC Central Committee, Chairman of the CPC Central Advisory Commission and Chairman of the Central Military Commission after 1982; he was Chairman of the Military Commission of the People's Republic of China in 1983; and Chairman of the Military Commission of the CPC Central Committee and the Military Commission of the People's Republic of China after November 1987. In 1989 and 1990 he resigned the posts of Chairman of the Military Commission of the CPC Central Committee and of the Military Commission of the People's Republic of China. PP. 261, 281, 295, 325, 349, 352, 370

<sup>193</sup> Fang Yi (1916-97), a native of Xiamen, Fujian Province, was then member of the Political Bureau of the CPC Central Committee and Minister of the State Science and Technology Commission. P. 261

<sup>194</sup> Ni Zhifu (1933- ), a native of Shanghai, was then member of the Political Bureau of the CPC Central Committee and Vice-Minister of the State Machine-Building Industry Commission. Shen Hong (1906- ), a native of Haining, Zhejiang Province, was then Vice-Minister of the First Ministry of Machine-Building Industry. P. 261

<sup>195</sup> It means that investment in capital construction should not create further deficit. P. 264

<sup>196</sup> Convertible foreign exchange refers to foreign currencies which are convertible in



international financial markets, i.e. the U.S. dollar, the Deutsche mark, the British sterling, the Japanese yen and the Hong Kong dollar. PP. 264, 275

<sup>197</sup> This refers to the practice of introducing foreign funds without considering domestic supplementary investment. P. 265

<sup>198</sup> Guangdong and Fujian were provinces which were allowed to pursue special policies and adopt flexible measures relating to foreign trade. This was approved by the CPC Central Committee and the State Council on July 15, 1979. It was also decided at the time that certain areas in Shenzhen and Zhuhai in Guangdong Province were to be set up as special economic zones on a trial basis; after experience was gathered it was to be considered whether to set up such special economic zones in certain areas in Shantou in Guangdong Province and in Xiamen in Fujian Province. The administration of special economic zones follows this guideline: as long as Chinese sovereignty is respected and the laws and decrees of China are obeyed, an open economic policy should be adopted, overseas Chinese or foreign businessmen should be permitted to invest or set up factories or joint ventures in China, foreign advanced technologies should be introduced and foreign trade should be developed. P. 266

<sup>199</sup> The Pingguo Aluminum Mine was located in Pingguo County, Guangxi Zhuang Autonomous Region. P. 266

<sup>200</sup> These quotas, representing the largest amount of different kinds of commodities a government would allow to be imported during a certain period of time, were applied in such a way that different import quotas for the same commodity could be set, depending on the country or region of origin. This was a significant means of restricting commodity imports from other countries. P. 266

<sup>201</sup> Wang Dongxing (1916- ), a native of Yiyang County, Jiangxi Province, was then a member of the Standing Committee of the Political Bureau of the CPC Central Committee and Vice-Chairman of the CPC Central Committee. Ji Dengkui (1923-88), a native of Wuxiang County, Shanxi Province, was then a member of the Political Bureau of the CPC Central Committee and Vice-Premier of the State Council. Wu De (1913-95), a native of Fengrun County, Hebei Province, was then a member of the Political Bureau of the CPC Central Committee, Vice-Chairman of the Standing Committee of the National People's Congress, First Secretary of Beijing Municipal Party Committee and Mayor of Beijing. Chen Xilian (1915- ), a native of Huang'an (now Hong'an), Hubei Province, was then a member of the Political Bureau of the CPC Central Committee and Vice-Premier of the State Council. P. 269

<sup>202</sup> At the Fifth Plenary Session of the Eleventh Central Committee of the CPC, delegates elected Wan Li, Wang Renzhong, Fang Yi, Gu Mu, Song Renqiong, Yu Qiuli, Yang Dezhi, Hu Qiaomu, Hu Yaobang, Yao Yilin and Peng Chong as members of the Secretariat of the Central Committee. P. 269

<sup>203</sup> Henry Kissinger (1923- ) served as Secretary of State of the United States under President Richard Nixon. P. 270

<sup>204</sup> Lin Liming (1901-77), a native of Wenchang, Guangdong Province, joined the revolution in 1927. After the founding of the People's Republic of China he served as Secretary of the Guangdong Provincial Party Committee, Vice-Governor and Acting Governor of Guangdong Province. P. 271

<sup>205</sup> Zhu De (1886-1976), a native of Yilong, Sichuan Province, served as Commander-in-Chief of the Chinese Workers' and Peasants' Red Army, Commander of the Eighth Route Army of the National Revolutionary Army and Commander-in-Chief of the Chinese People's Liberation Army. In the early 1960s, he served as Vice-Chairman of the CPC Central Committee, Vice-Chairman of the Central Military Commission and Chairman of the Standing Committee of the National People's Congress. P. 271

<sup>206</sup> Pawnshops were usurious institutions that granted loans for pawns in the old days.

When poor people had overwhelming financial difficulties, they had to put belongings such as clothing into pawn in return for 50 per cent of the value or less, and at very high interest rates. The pawn period ranged from six months to a year. If the period expired, the pawns would be confiscated by the pawnshop. P. 275

<sup>207</sup> The International Monetary Fund was established in accordance with the International Monetary Fund Agreement adopted at the International Monetary and Financial Conference in December 1945. The International Monetary Fund began operation in March 1947. In November of the same year, it became a special organization of the United Nations. The headquarters of the organization is in Washington. P. 275

<sup>208</sup> The World Bank, also known as the International Bank for Reconstruction and Development, was established in accordance with the Agreement on International Banking for Reconstruction and Development adopted at the International Monetary and Financial Conference in December 1945. It began operation in June 1946. In November 1947, it became a special organization of the United Nations. The headquarters of the organization is in Washington. P. 275

<sup>209</sup> V.L. Lenin, "The Importance of Gold Now and After the Complete Victory of Socialism," *Collected Works*, Eng. ed., Progress Publishers, Moscow, 1966, Vol. 33 p. 113. P. 276

<sup>210</sup> The "gold yuan" was the paper currency the Kuomintang government began to issue on August 19, 1948. It was used as a medium of exchange for withdrawing the rapidly devaluating old currency. The old currency was the paper currency which the Central Bank of China, the Bank of China and the Communications Bank of the Kuomintang began to issue on November 4, 1935. The exchange rate was 1 gold yuan to 3 million yuan of the old currency. All gold, silver and foreign currency in the hands of the people was to be collected within a given time limit. By May 1949, that is, within 10 months, the total amount of "gold yuan" currency issued rose to 68,000 billion yuan, 34,000 times the originally planned figure of 2 billion yuan. This resulted in a precipitous devaluation of the currency, which sent prices soaring. After the founding of the People's Republic of China, the People's Government called in all the "gold yuan" currency for abrogation at the exchange rate of 100,000 "gold yuan" to 1 yuan Renminbi. P. 276

<sup>211</sup> See note 4 in this volume. P. 276

<sup>212</sup> This refers to the Central Financial and Economic Leading Group established on March 27, 1980 by the CPC Central Committee with Zhao Ziyang as the head. P. 280

<sup>213</sup> Zhao Ziyang (1919- ) was a native of Huaxian County, Henan Province. In December 1980 he was a member of the Standing Committee of the Political Bureau of the CPC Central Committee, Premier of the State Council and head of the Central Financial and Economic Leading Group. In June 1981 he became Vice-Chairman of the CPC Central Committee. At the First Plenary Session of the Thirteenth Central Committee held in November 1987 he was elected General Secretary of the Central Committee. The Fourth Plenary Session of the Thirteenth Central Committee held in 1989 examined and approved the "Report on Comrade Zhao Ziyang's Mistakes in the Anti-Party and Anti-socialist Turmoil." Zhao Ziyang was dismissed from all his leading posts. PP. 280, 302, 335, 360

<sup>214</sup> The Zunyi Meeting was an enlarged meeting of the Political Bureau of the Central Committee held in Zunyi, Guizhou Province from January 15 to 17, 1935. It focused on discussing and rectifying the errors in military affairs, organizationally ended the domination of Wang Ming's "Left" adventurism in the CPC Central Committee, established the correct leadership of the new Central Committee represented by Mao Zedong, thus, it saved the Red Army and the Party Central Committee from destruction at the most crucial moment. This led to the subsequent defeat of Zhang Guotao's schism and the successful conclusion of the Long March and opened up new prospects for the Chinese revolution. The Zunyi Meeting

marked a great turning point in the history of the Chinese revolution. P. 282

<sup>215</sup> The “1938 cadres” refers to individuals who joined the revolutionary ranks in the early days of the War of Resistance Against Japan. P. 282

<sup>216</sup> The Xi’an Incident is also known as the December 12th Incident. At a critical juncture when the Japanese imperialists were stepping up their colonization of China, the Kuomintang’s Northeastern Army, headed by General Zhang Xueliang, and its 17th Route Army, headed by General Yang Hucheng, having been influenced by both the Communist Party’s policy of a national united front against Japan and the people’s anti-Japanese movement, demanded that Chiang Kai-shek end the civil war and join the efforts of the Communists to fight Japan. Chiang not only refused to comply but hurried to Xi’an to make preparations for actions to “suppress the Communists.” Zhang Xueliang and Yang Hucheng jointly arrested Chiang Kai-shek at Lintong near Xi’an on December 12, 1936. This became known as the Xi’an Incident. After the incident, the pro-Japanese faction in the Kuomintang, headed by He Yingqin, prepared to exploit this opportunity by launching a large-scale civil war and ousting Chiang Kai-shek. The Communist Party wanted to settle the incident peacefully. Thanks largely to the arduous efforts of Zhou Enlai, Bo Gu (Qin Bangxian) and Ye Jianying, all representatives of the Chinese Communist Party, a peaceful settlement was reached, thus facilitating the formation of the Anti-Japanese National United Front. P. 282

<sup>217</sup> Li Lisan (1899-1967), a native of Liling, Hunan Province, joined the Communist Party of China in 1921 and was one of the main leaders of the Chinese workers’ movement. From June to September 1930, when he was in charge of the work of the CPC Central Committee, he committed mistakes of “Left” adventurism. Later he admitted and corrected his mistakes and was re-elected to the CPC Central Committee at the Seventh and Eighth National Congresses of the Party. PP. 283, 360

<sup>218</sup> The Communist International, also known as the Third International, was an organization uniting the communist parties of different countries. It was established in March 1919 and dissolved in June 1943. The Chinese Communist Party joined the Communist International in 1922. P. 283

<sup>219</sup> The Japanese invading army stationed in northeast China at that time was called the “Kwantung Army.” After the Russo-Japanese War of 1905, the Japanese imperialists forced the Qing government to conclude the Treaty of the Sino-Japanese Meeting on the Affairs of the Three Northeastern Provinces and a supplementary treaty, thus replacing tsarist Russia as the colonial power in northeast China. Japan then began to station troops in southern Manchuria and established its Kwantung Army headquarters in Lüshunkou. Japan initiated the September 18th Incident of 1931 and soon occupied the whole of northeast China. During World War II, the Japanese Kwantung Army claimed to be a million strong and was the cream of the main forces of the Japanese army, constituting Japan’s general strategic reserve. In August 1945, the Soviet Red Army entered northeast China, joined the war against the Japanese and pulverized the Japanese Kwantung Army. PP. 283, 321

<sup>220</sup> Qiu Xiaopeng (1926- ), a native of Suzhou, Jiangsu Province, was a playwright for the Suzhou Pingtan Balladry Troupe. P. 285

<sup>221</sup> A reference to the plots of Pingtan plays. P. 285

<sup>222</sup> A reference to suspense in Pingtan plays. P. 285

<sup>223</sup> Meaning “to explain terms in ancient books.” P. 287

<sup>224</sup> Li Yimang (1903-1990), a native of Pengxian County, Sichuan Province, was then Deputy Secretary of the Central Commission for Discipline Inspection and Deputy Head of the International Liaison Department of the Central Committee of the Chinese Communist Party. P. 288

<sup>225</sup> In 1958 the Planning Group of Editing and Publishing Ancient Books was established and placed directly under the Science Planning Commission. The group edited and published



about 2,000 different ancient texts. Later, it ceased to function for quite a long time and many of its members were deceased. On December 10, 1981, at the suggestion of Chen Yun, the State Council decided to restore the Planning Group of Editing and Publishing Ancient Books, with Li Yimang as its head. The group was placed directly under the State Council.

P. 288

<sup>226</sup> A reference to ancient books with high academic or artistic value.

P. 288

<sup>227</sup> The Fifth Plenary Session of the Eleventh Central Committee of the Chinese Communist Party was held in Beijing from February 23 to 29, 1980. The main topic was how to strengthen the Party's leadership. The Session examined and adopted the "Certain Criteria for Political Life Within the Party," examined the revised draft of the Constitution of the Chinese Communist Party and decided to distribute the Constitution to the entire Party membership for discussion. Hu Yaobang and Zhao Ziyang were elected members of the Standing Committee of the Political Bureau of the Central Committee. The Session restored the Secretariat of the Central Committee and Hu Yaobang as its General Secretary. In accordance with the opinions of the people within and outside the Party, the Session approved the resignations of Wang Dongxing, Ji Dengkui, Wu De and Chen Xilian from their leadership positions in the Party and suggested that the National People's Congress dismiss them from their leadership positions in the Party and the government. The Session proposed that the National People's Congress revise Article 45 of the Constitution by cancelling the stipulation that citizens have the right to use "big voicing, big airing, big debates and big character posters" to express their views. The Session also adopted the resolution on the rehabilitation of Liu Shaoqi.

PP. 290, 297, 310, 319

<sup>228</sup> During the "cultural revolution," the Lin Biao and Jiang Qing counterrevolutionary cliques slandered the intellectuals as the "stinking ninth category." The nine categories were landlords, rich peasants, counterrevolutionaries, bad elements, rightists, renegades, enemy agents, capitalist roaders and intellectuals.

P. 293

<sup>229</sup> A reference to the article entitled "Promoting and Training Young and Middle-aged Cadres Is Our Urgent Task" in this volume.

P. 295

<sup>230</sup> Hu Yaobang (1915-89), a native of Liuyang, Hunan Province, was then Chairman of the Central Committee of the Chinese Communist Party and General Secretary of the Central Committee.

P. 295

<sup>231</sup> A reference to the "Summary on the Forum on the Retirement of Veteran Cadres."

P. 295

<sup>232</sup> Li Peng (1928-), a native of Chengdu, Sichuan Province, started studying at the Moscow Power Institute in 1948 and was chairman of the union of the Chinese students studying in the Soviet Union. After 1955, he was deputy director and chief engineer of the Fengman Power Plant, deputy chief engineer of the Northeast China Electric Power Administration, director of the Fuxin Power Plant in Liaoning Province, chairman of the revolutionary committee of the Beijing electric power supply bureau and director of the Beijing electric power administration. Since 1979, he was Vice-Minister and then Minister of Electric Power Industry and First Vice-Minister of Water Resources and Electric Power. In June 1983, he became Vice-Premier of the State Council. In September 1985, he was elected member of the Political Bureau of the CPC Central Committee. At the First Plenary Session of the Thirteenth Central Committee held in 1987 he was elected member of the Standing Committee of the Political Bureau of the Central Committee. He has been the Premier of the State Council since 1988.

PP. 296, 359

<sup>233</sup> Li Shuoxun (1903-31), a native of Qingfu (now Gaoxian) County, Sichuan Province, joined the Chinese Communist Party in 1924. He took part in the Nanchang Uprising in 1927, serving as the Party representative of the Twenty-fifth Division of the Eleventh Army. Later, he held such posts as Head of the Organization Department of the CPC Zhejiang



Provincial Committee, Secretary of the Military Committee of the Jiangsu Provincial Party Committee and Secretary of the Military Committee of the Guangdong Provincial Party Committee. He was arrested in Haikou, Guangdong Province in July 1931 and died a hero's death in September of the same year. P. 296

<sup>234</sup> A reference to the Fengman Power Plant (Fengman Hydropower Station) which is located in southeastern Jilin City, Jilin Province, near the mouth of Songhua Lake. P. 296

<sup>235</sup> Liu Lanbo (1904-82), a native of Fengcheng, Liaoning Province, served as Minister of Electric Power Industry and member of the Standing Committee of the CPC Central Commission for Discipline Inspection since 1979. In March 1981, in response to the call of the CPC Central Committee, he resigned and recommended young, qualified comrades for leading positions in the Ministry of Electric Power Industry. P. 296

<sup>236</sup> Hao Jianxiu (1935-), a native of Qingdao, Shandong Province, became a worker at the No. 6 Qingdao State Cotton Plant in 1949. She created a set of scientific working methods, which were later called the "Hao Jianxiu Working Methods." In 1958, she began study at the East China Textile Industry College. From 1962 she served as Deputy Director of the No. 8 Qingdao State Cotton Plant, Deputy Secretary of the CPC Qingdao Municipal Party Committee, Vice-Chairwoman of the Shandong Provincial Federation of Trade Unions, Chairwoman of the Shandong Women's Federation, member of the Standing Committee of the CPC Shandong Provincial Committee and Vice-Minister of Textile Industry. She became the Minister of Textile Industry in March 1981. Since September 1982 she has been an alternate member and member of the Secretariat of the CPC Central Committee. P. 296

<sup>237</sup> Jimmy Carter (1924-) was the President of the United States of America from 1977 to 1981. P. 297

<sup>238</sup> Ronald Reagan (1911-) was the President of the United States of America from 1981 to 1989. P. 297

<sup>239</sup> Nie Yuanzi (1921-), a native of Huaxian County, Henan Province, was the secretary of the Party branch of the Philosophy Department of Beijing University. During the "cultural revolution," she followed the Lin Biao and Jiang Qing counterrevolutionary cliques and committed the crimes of counterrevolutionary propaganda, instigation and frame-up. On March 16, 1983, the Beijing Intermediate People's Court sentenced her to 17 years imprisonment and four years deprivation of political rights in accordance with law. P. 297

<sup>240</sup> Kuai Dafu (1946-), a native of Binhai, Jiangsu Province, was a student at Qinghua University. During the "cultural revolution," he followed the Lin Biao and Jiang Qing counterrevolutionary cliques and committed the crimes of counterrevolutionary propaganda, instigation, murder and frame-up. On March 16, 1983, the Beijing Intermediate People's Court sentenced him to 17 years imprisonment and four years deprivation of political rights in accordance with law. P. 297

<sup>241</sup> Song Renqiong (1909-), was a native of Liuyang, Hunan Province. He was then a member of the Secretariat of the Central Committee and head of the Organization Department of the Central Committee. P. 298

<sup>242</sup> Wang Hongwen (1934-1992), a native of Changchun, Jilin Province, was the principal criminal in the case of the Jiang Qing counterrevolutionary clique. During the "cultural revolution," he committed the crimes of organizing and leading the counterrevolutionary clique, plotting to subvert the government and planning armed rebellion, counterrevolutionary persecution and frame-up. On January 23, 1981, the special tribunal of the Supreme People's Court of the People's Republic of China sentenced him to life imprisonment and life deprivation of political rights in accordance with law. P. 298

<sup>243</sup> The first Resolution refers to the Resolution on Certain Questions Concerning the History of Our Party adopted at the Enlarged Seventh Plenary Session of the Sixth CPC Central Committee on April 20, 1945. The second Resolution refers to the Resolution on

Certain Questions Concerning the History of Our Party Since the Founding of the People's Republic of China, adopted at the Sixth Plenary Session of the Eleventh CPC Central Committee on June 27, 1981. P. 299

<sup>244</sup> Hu Qiaomu (1912-1992), a native of Yancheng, Jiangsu Province, had been secretary to Mao Zedong since 1941 and later he was also secretary to the Political Bureau of the CPC Central Committee. He served as a member of the Secretariat of the CPC Central Committee in 1981. Under the leadership of the Political Bureau and the Secretariat and directed by Deng Xiaoping and Hu Yaobang, he took charge of the work of the group drafting the Resolution on Certain Questions Concerning the History of Our Party Since the Founding of the PRC. P. 299

<sup>245</sup> A reference to Peng Dehuai, see note 149 in this volume. P. 299

<sup>246</sup> Wan Li (1916- ), a native of Dongping, Shandong Province, was then member of the Secretariat of the CPC Central Committee and Vice-Premier of the State Council. P. 302

<sup>247</sup> See note 198 in this volume. PP. 303, 307

<sup>248</sup> This refers to the fact that RMB can circulate only in China and is not convertible on the international financial market, while foreign currency (here referring to cash) can be bought and sold on the international financial market. P. 304

<sup>249</sup> See the article "Several Important Principles to Be Implemented in Economic Development" in this volume. PP. 305, 307

<sup>250</sup> See the article "Make Use of Capitalists and their Representatives" in the *Selected Works of Chen Yun* (1949-1956). The original text reads, "In the old days, there was a particular type of shopkeeper, who often wore a skullcap and carried a water pipe. These shopkeepers concerned themselves with 'strategic matters,' such as what kind of goods were in short supply, which goods to stock and when." P. 306

<sup>251</sup> This refers to the *Selected Articles of Comrade Chen Yun* (1956-1962) which was published in Chinese in 1980. Those articles are included in this volume. P. 306

<sup>252</sup> This refers to the *Selected Articles of Chen Yun* (1949-1956) which was published in Chinese in 1982. In July 1984, the volume was renamed the *Selected Works of Chen Yun* (1949-1956) and published by the People's Publishing House. P. 306

<sup>253</sup> A reference to a letter to the Science and Technology Group of the Research Office of the Secretariat of the CPC Central Committee written by a teacher of Beijing University of Aeronautics and Astronautics who is a Party member and to the investigation report on the health of middle-aged intellectuals prepared by the CPPCC group researching implementation of the policy towards intellectuals. P. 308

<sup>254</sup> The Twelfth National Congress of the Communist Party of China was held in Beijing from September 1 to 11, 1982. Deng Xiaoping delivered the opening speech, Hu Yaobang made a report entitled "Create a New Situation in All Areas of Socialist Modernization." Ye Jianying and Chen Yun made important speeches and Li Xiannian delivered the closing address. The Congress formulated programmes, principles and policies designed to create a new situation in all areas of socialist modernization. It set the strategic objective of quadrupling the gross annual value of China's industrial and agricultural output by the end of the 20th century and determined the steps for achieving this objective. It put forth the task of striving to bring about a fundamental turn for the better in the country's financial and economic situation, in the standards of social conduct and in the style of the Party. It adopted a new Party Constitution and elected the members of the Twelfth Central Committee, the newly founded Central Advisory Commission and the Central Commission for Discipline Inspection. PP. 310, 313, 345

<sup>255</sup> The Fourth Plenary Session of the Eleventh Central Committee, held in Beijing from September 25 to 28, 1979, examined and approved the speech delivered by Ye Jianying at the meeting celebrating the 30th anniversary of the founding of the People's Republic of

China as well as the “Decision of the CPC Central Committee on Certain Questions on Speeding up Agricultural Development.” Zhao Ziyang and Peng Zhen were elected members of the Political Bureau of the Central Committee. P. 310

<sup>256</sup> The Sixth Plenary Session of the Eleventh Central Committee, held in Beijing from June 27 to 29, 1981, examined and approved the “Resolution on Certain Questions in the History of Our Party Since the Founding of the People’s Republic of China.” It accepted the resignation of Hua Guofeng from his posts as Chairman of the Central Committee and Chairman of its Military Commission. It elected Hu Yaobang Chairman of the Central Committee, Zhao Ziyang and Hua Guofeng vice-chairmen of the Central Committee, Deng Xiaoping Chairman of its Military Commission and Xi Zhongxun member of the Secretariat of the Central Committee. P. 310

<sup>257</sup> The Seventh Plenary Session of the Eleventh Central Committee, held in Beijing on August 6, 1982, decided to hold the Twelfth National Congress of the Communist Party of China on September 1, 1982. It examined and approved the Report of the Central Committee to the Party’s Twelfth National Congress and the Constitution of the Communist Party of China (Revised Draft). P. 310

<sup>258</sup> Sixth Five-Year Plan is the abbreviation for the Sixth Five-Year Plan for China’s Economic and Social Development (1981-1985). PP. 313, 319

<sup>259</sup> This refers to the Report on the Sixth Five-Year Plan delivered by Zhao Ziyang, Premier of the State Council, at the Fifth Session of the Fifth National People’s Congress on November 30, 1982. P. 313

<sup>260</sup> References to Qu Qiubai, Cai Hesen, Luo Yinong, Zhao Shiyan, Zhang Tailei, Guo Liang, Liu Bojian and other revolutionary martyrs. P. 316

<sup>261</sup> Held in Beijing from February 22 to March 2, 1983, the conference mainly discussed the reform of the educational structure of Party schools throughout the country. It decided to change Party schools’ main task from training cadres in rotation to training them in such a way so as to achieve a gradual standardization of Party school education. P. 317

<sup>262</sup> Up to the time that the general target of quadrupling China’s economic development was decided upon at the Twelfth National Congress of the CPC, the total value of industrial and agricultural output had been the standard used to calculate economic growth. Because the GNP is commonly used throughout the world to calculate the value of the output of a nation, beginning in 1985 the CPC Central Committee began to formally use GNP to calculate economic growth in determining the major targets for the Seventh Five-Year Plan for National Economic and Social Development, so as to accurately reflect the level of the country’s economic development. P. 319

<sup>263</sup> The “three types of people” are those who rose to prominence during the “cultural revolution” by following the Lin Biao and Jiang Qing counterrevolutionary cliques in “rebellion,” those who are still wedded to factionalism, and those who during the “cultural revolution” engaged in beating, smashing and looting. PP. 320, 325

<sup>264</sup> The Liaoxi-Shenyang Campaign was a decisive PLA Northeast Field Army campaign against Kuomintang troops in western Liaoning Province and in the Shenyang-Changchun area between September 12 and November 2, 1948. On October 15, Jinzhou was captured, which impelled some of the enemy forces garrisoning Changchun to revolt against the Kuomintang and the rest to surrender. On November 2, Shenyang and Yingkou were captured. The whole of the Northeast was thus liberated by the time the Liaoxi-Shenyang campaign was over. A total of 470,000 Kuomintang troops were wiped out during this campaign. P. 321

<sup>265</sup> The Yalta Agreement, or the Tripartite Agreement on Japan, was secretly signed by Premier Stalin of the Soviet Union, President Roosevelt of the United States and Prime Minister Churchill of Great Britain at Yalta (Crimea, USSR) on February 11, 1945. The main



element of the agreement was that, within two or three months after the end of the European war, the Soviet Union would intervene against Japan. In return for this, the other two parties promised to maintain the status quo in Outer Mongolia, to restore the Soviet rights and interests which were lost in the Russo-Japanese War of 1905 and to return to the Soviet Union the Kuril Islands. The Soviet Union expressed willingness to sign a pact of friendship and alliance with China's Kuomintang government at the meeting. P. 321

<sup>266</sup> The New Fourth Army, also known as the "New Fourth Army of the National Revolutionary Army," was a main force of the people's army under the leadership of the Chinese Communist Party during the War of Resistance Against Japan. It was reorganized into the Chinese People's Liberation Army during the Third Revolutionary Civil War. P. 322

<sup>267</sup> The Chinese People's Anti-Japanese Military and Political College was where the Chinese Communist Party trained anti-Japanese cadres for the Party and the army. Its precursor was the Workers' and Peasants' Red Army College in the Central Revolutionary Base Area. It was founded on June 1, 1936 at Wayaobu (a town in the present Zichang County, Shaanxi Province) in northern Shaanxi Province. It was originally known as the Chinese People's Anti-Japanese Red Army College. At the beginning of 1937, it was given its present name and moved to Yan'an. It had run eight terms. Twelve branch schools were established in the Shaanxi-Gansu-Ningxia Border Region and in north and central China and in some anti-Japanese base areas behind enemy lines. After the victory of the War of Resistance Against Japan, the College moved to northeast China and was renamed the Northeast Military and Political College. In other liberated areas, the military and political colleges or military and political cadres' colleges which were successively established were based on the original branches of this college. P. 322

<sup>268</sup> The Northeast Anti-Japanese United Army was a people's armed force led by the Chinese Communist Party in northeast China. On February 20, 1936, the main anti-Japanese armed forces in the Northeast jointly issued the "Declaration on Unifying the Organizational System of the Northeast Anti-Japanese United Army." These armed forces were organized into the Northeast Anti-Japanese United Army. It grew to 11 corps with approximately 40,000 troops. It waged heroic struggles against the Japanese invading army under extremely difficult circumstances. But because it fought against heavy odds, it suffered heavy losses. To preserve its strength, its main force moved into the Soviet Union after 1940. It played a great supporting role for the Soviet Army in the war against the Japanese in August 1945. On October 30 of the same year, it was reorganized as the Northeast People's Autonomous Army in combination with the Eighth Route Army and the New Fourth Army that had marched into the Northeast. At the beginning of 1946, it was renamed the Northeast Democratic United Army. P. 322

<sup>269</sup> A reference to the Northeast Bureau of the CPC Central Committee, originally known as the Northeast Central Bureau. It served as the representative organ of the CPC Central Committee. It was established on September 15, 1945 and was dissolved in April 1954. In the 1960s it was re-established and later dissolved again. P. 322

<sup>270</sup> The First, Second and Third Field Armies of the Chinese People's Liberation Army were reorganized respectively from the Northwest, the Central Plains and the East China Field Armies in the spring of 1949. P. 322

<sup>271</sup> The Fourth Field Army of the Chinese People's Liberation Army was reorganized from the Northeast Field Army in March 1949. P. 322

<sup>272</sup> The puppet Manchukuo regime created by the Japanese imperialists after they occupied northeast China in 1931 was established in Changchun in March 1932; Pu Yi, the last emperor of the Qing Dynasty, was the "Executive." The reign was called "Datong." In March 1934, the Manchukuo regime became known as the Manchukuo Empire, and Pu Yi became Emperor under the title of Kangde. The regime was brought down in August 1945 with the Chinese victory over Japan. P. 322



<sup>273</sup> This refers to the agrarian reform movement conducted in the liberated areas after the CPC Central Committee issued the “Directive on Land Issues” on May 4, 1946. After victory was won in the War of Resistance Against Japan, an extensive and thorough mass movement was launched in the countryside to combat Chinese collaborators, settle accounts with landlords and reduce land rents and interest. As the vast numbers of peasants urgently demanded land, the Central Committee decided to change the policy of reducing rents and interest during the anti-Japanese war to one of confiscating the land from the landlords and distributing it among the peasants. P. 322

<sup>274</sup> Hu Hai Ba Bai refers to Hulan, Hailun, Bayan and Baiquan counties in Heilongjiang Province. Suihua is a city of Heilongjiang Province. Jin Fu Hai Gai refers to Jinxian, Fuxian, Haicheng and Gaixian counties in Liaoning Province. Liaoyang is a county in Liaoning Province. “Hu Hai Ba Bai, not to mention Suihua” and “Jin Fu Hai Gai, not to mention Liaoyang” are local sayings. The meaning is that there are quite a number of good grain-producing regions in northeast China; just to mention such places as Hulan, Hailun, Bayan and Baiquan and Jinxian, Fuxian, Haicheng and Gaixian is enough, let alone Suihua and Liaoyang. P. 322

<sup>275</sup> See “Build Stable Base Areas in the Northeast,” *Selected Works of Mao Zedong*, Eng., ed., FLP, Beijing, 1975, Vol. IV, pp. 81-85. P. 323

<sup>276</sup> A reference to the “Resolution on the Situation and the Tasks” of the Northeast Bureau of the CPC Central Committee on July 7, 1946. It was approved and partly revised by the CPC Central Committee on July 11 of the same year. See *Selected Works of Chen Yun* (1926-1949), Eng., ed., FLP, Beijing, 1988, Vol. I, pp 221-227. P. 323

<sup>277</sup> Lin Yueqin (1914-), a native of Jinzhai, Anhui Province, was the wife of Luo Ronghuan. P. 323

<sup>278</sup> A reference to Luo Ronghuan (1902-63), who was a native of Hengshan, Hunan Province. During the War of Liberation he held the posts of deputy-secretary of the Northeast Bureau of the CPC Central Committee, political commissar of the Northeast Field Army and first political commissar of the Fourth Field Army. In September 1955 the military rank of marshal was conferred upon him. P. 323

<sup>279</sup> A reference to Yang Shangkun (1907-), a native of Tongnan, Sichuan Province, then serving as member of the Political Bureau of the CPC Central Committee and Vice-Chairman in charge of the day-to-day work of the Central Military Commission. P. 324

<sup>280</sup> The Second Plenary Session of the Twelfth Central Committee of the CPC, held in Beijing on October 11-12, 1983, adopted the “Decision of the CPC on Rectification of Party Organizations.” It established the Party Rectification Guidance Commission of the Central Committee with Hu Yaobang as Chairman. P. 325

<sup>281</sup> Soviet, the transliteration of the Russian, which means council or conference, was the name for the organs of authority in Russia after the October Revolution. During the Second Revolutionary Civil War, the revolutionary regimes set up in various places by the Chinese Communist Party were called the Soviet governments. The areas under the control of the Soviet governments were referred to as Soviet areas. P. 326

<sup>282</sup> This refers to the counterrevolutionary coup staged by Chiang Kai-shek in Shanghai on April 12, 1927, during which he perpetrated a bloody slaughter of Communists and other revolutionary people. P. 326

<sup>283</sup> On September 30, 1981, Ye Jianying, chairman of the Standing Committee of the National People’s Congress, announced nine principles concerning the peaceful reunification of the Chinese mainland and Taiwan, which read as follows: P. 328

1. In order to bring an end to the unfortunate separation of the Chinese nation as early as possible, we propose that talks be held between the Communist Party of China and the Kuomintang of China on a reciprocal basis so that the two parties can cooperate

for the third time to accomplish the great cause of national reunification. The two sides may first send people to meet for an thoroughgoing exchange of views.

2. It is the urgent desire of the people of all [China's] ethnic groups on both sides of the Straits to communicate with each other, reunite with their relatives, develop trade and increase mutual understanding. We propose that the two sides make arrangements to facilitate the exchange of mail, trade, air and shipping services, family reunions and visits by relatives and tourists as well as academic, cultural and sports exchanges, and reach an agreement thereupon.

3. After the country is reunified, Taiwan can enjoy a high degree of autonomy as a special administrative region and can retain its armed forces. The Central Government will not interfere with local affairs on Taiwan.

4. Taiwan's current socio-economic system will remain unchanged, as will its way of life and its economic and cultural relations with foreign countries. There will be no encroachment on proprietary rights or on the lawful right of inheritance of private property, houses, land and enterprises, or on foreign investments.

5. People in authority and representative persons from various circles in Taiwan may take up posts of leadership in national political bodies and participate in running the state.

6. When Taiwan's local finances are in difficulty, the Central Government may offer subsidies as appropriate.

7. For people of all [China's] ethnic groups and public figures of various circles in Taiwan who wish to settle on the mainland, we guarantee that proper arrangements will be made, that there will be no discrimination against them, and that they will have freedom of entry and exit.

8. We hope that industrialists and businessmen in Taiwan will invest in the mainland and engage in economic undertakings there; their legal rights, interests and profits will be guaranteed.

9. The reunification of the motherland is the responsibility of all Chinese. We sincerely hope that through various channels, people of all [China's] ethnic groups, public figures in all circles and all mass organizations in Taiwan will make proposals regarding affairs of state.

<sup>284</sup> See "An Idea for the Peaceful Reunification of the Chinese Mainland and Taiwan," *Selected Works of Deng Xiaoping*, Eng. ed., FLP, Beijing, 1994, Vol. III, pp. 40-42. P. 328

<sup>285</sup> Chiang Ching-kuo (1910-88), a native of Fenghua County, Zhejiang Province, was then Chairman of the Central Executive Committee of the Kuomintang of China and President of the Kuomintang government in Taiwan. P. 328

<sup>286</sup> The Third Plenary Session of the Twelfth Central Committee of the CPC held in Beijing on October 20, 1984 adopted the "Decision on the Reform of the Economic Structure" and the "Decision on the Convening of a National Conference of the Party." PP. 330, 335

<sup>287</sup> See the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong, which was initialed on September 26, 1984 and formally signed in Beijing on December 19 of the same year. P. 330

<sup>288</sup> The four points mentioned here are as follows: First, ours is, on the whole, a planned economy, that is, a planned commodity economy, not a market economy that is entirely subject to regulation by market forces. Second, the production and exchange that are to be entirely regulated by market forces are limited mainly to certain farm and sideline products, small articles for daily use and labour services in the service and repair trades, all of which play a supplementary but indispensable role in the national economy. Third, our planned economy does not necessarily mean the predominance of mandatory planning, both manda-

tory and guidance plans being its specific forms. Fourth, guidance plans are fulfilled mainly by use of economic levers; mandatory plans have to be implemented, but even then the law of value must be observed. P. 331

<sup>289</sup> A reference to the bureaucratic comprador capitalist monopoly group in the Kuomintang headed by Chiang Kai-shek, T.V. Soong, H. H. Kung and Chen Kuo-fu. P. 337

<sup>290</sup> A reference to the Decision of the Central Committee of the Communist Party of China on the Reform of the Economic Structure adopted at the Third Plenary Session of the Twelfth Central Committee of the Chinese Communist Party in Beijing on October 20, 1984. The decision reviewed the negative and positive experience gained in China's socialist economic development, and especially the experience in the economic restructuring carried out in urban and rural areas since the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party. In accordance with the principle of integrating the fundamental tenets of Marxism-Leninism with the realities of China, the decision proposed that the policies of invigorating the domestic economy and opening to the outside world be further implemented and that the pace of the economic restructuring focused on cities be quickened. According to the decision, the basic task of reform was to change fundamentally the economic structure that fettered the development of production and to establish a lively socialist economic structure with Chinese characteristics. In breaking through the traditional concept that regarded planned economy to be in conflict with commodity economy, the decision pointed out that China's socialist economy was a planned commodity economy based on public ownership. The decision was a programmatic document guiding an all-round economic restructuring in China. The Decision on the Convocation of a National Conference of the Party was also adopted at the Plenary Session. P. 337

<sup>291</sup> The National Conference of the CPC was held in Beijing on September 18-23, 1985. At the conference Hu Yaobang delivered the opening speech entitled "Work Together for a Splendid Future," Zhao Ziyang gave an explanation of the proposal for the Seventh Five-Year Plan, Deng Xiaoping and Chen Yun made important speeches and Li Xiannian delivered the closing speech. The conference adopted the "Proposal of the CPC Central Committee for the Seventh Five-Year Plan for National Economic and Social Development." It also unanimously approved the requests of a number of veteran comrades for resignation from the Party Central Committee, the Central Advisory Commission and the Central Commission for Discipline Inspection, and elected new members for the Party Central Committee and for two Central Commissions. P. 340

<sup>292</sup> Lü Dong (1915-), a native of Haicheng, Liaoning Province, was then Minister in Charge of the State Economic Commission. P. 340

<sup>293</sup> The Four Cardinal Principles are: Keep to the socialist road; uphold the dictatorship of the proletariat; uphold the leadership of the CPC; and uphold Marxism-Leninism and Mao Zedong Thought. P. 343

<sup>294</sup> From January 1984 to March 1985, some leading cadres of the Party Committee and government of Hainan Administrative Region, Guangdong Province, in violation of discipline and principles and policies formulated by the Party Central Committee and acting against the policies of the central authorities, approved and supported the import and resale of large quantities of cars and other commodities by some companies under their administration. In July 1985, the Central Commission for Discipline Inspection discovered the facts about this serious case of violation of the law and discipline. With approval by the CPC Central Committee and the State Council, disciplinary measures were taken against involved leaders of the Party Committee and the government of Hainan Administrative Region. P. 347

<sup>295</sup> Wu Bo (1906- ), a native of Jingxian County, Anhui Province, was Vice-Minister of Finance in 1956. P. 349

<sup>296</sup> Li Fuchun was then deputy head of the Organization Department of the CPC Central



Committee; Wang Heshou was chief of the Cadres Section of the Organization Department of the CPC Central Committee; Chen Zhengren was head of the Organization Department of the Shaanxi-Gansu-Ningxia Bureau of the Central Committee; Wang De was chief of the Local Section of the Organization Department of the CPC Central Committee. P. 351

<sup>297</sup> Tai'erzhuang is located in southeastern Zaozhuang in Shandong Province. (It was under the jurisdiction of Yixian County during the War of Resistance Against Japan.) In mid-March 1938, in order to seize the Tianjin-Pukou Railway, attack Xuzhou and link up the North China and Central China theatres, the Japanese invading troops sent the 10th Division (under the command of Isogai) and the 5th Division (under the command of Itagaki) to march into Tai'erzhuang on two routes. Under the command of Li Zongren, commander of the 5th War Zone, the Chinese troops fought a defensive war there. They first defeated the main force of the 5th Division in Linyi and on March 23 they began to encircle and annihilate the 10th Division which was isolated. The battle ended on April 7. More than 10,000 men of the 5th and 10th divisions, which were Japanese crack troops, were wiped out. It was our biggest victory in the Kuomintang's frontal battlefields since the anti-Japanese war began. PP. 352, 363

<sup>298</sup> See "The Role of the Chinese Communist Party in the National War," *Selected Works of Mao Zedong*, Eng. ed., FLP, Beijing, 1967, Vol. II, p. 209. P. 353

<sup>299</sup> The two articles are "A City That Is Invisible from a Satellite in Orbit—An Investigative Report on the Environmental Pollution in Benxi" written by a reporter of the Xinhua News Agency on August 27, 1988, and "The Annual Amount of Pollutant Discharged in Sichuan Province Amounts to One-tenth of the Total in the Country" written by a reporter of *People's Daily* on August 22, 1988. P. 355

<sup>300</sup> George Washington (1732-99) was one of the founding fathers of the United States and served as President of the United States from 1789 to 1797. P. 357

<sup>301</sup> After the death of Hu Yaobang on April 15, 1989, vast numbers of people expressed their grief in various ways. During the period of mourning, a handful of ill-disposed persons availed themselves of this opportunity to fabricate rumours, make demagogic speeches and put up posters slandering and attacking Party and state leaders. They called for opposition to leadership by the Communist Party and to the socialist system. On April 26, the *People's Daily* published an editorial entitled "We Must Take a Clear-cut Stand Against Disturbances." However, Zhao Ziyang, then General Secretary of the CPC Central Committee, supported and connived in the disturbances, thus aggravating them. Beginning on May 13 the Federation of Self-Governing Student Unions of Universities and Colleges in Beijing, an illegal organization, incited a number of people to stage hunger strikes. They occupied Tiananmen Square for a long time. On May 20, to ensure social stability and restore normal public order, the State Council instituted martial law in some areas of Beijing. However, taking advantage of the forbearance on the part of the government and the troops who were enforcing martial law, the instigators of the disturbances continued their occupation of the square and organized all sorts of illegal activities, culminating in a counterrevolutionary rebellion. On June 4 the Party and the government, relying on the support of the people, took decisive measures to put this down. PP. 359, 364

<sup>302</sup> Hu Qili (1929- ), a native of Yulin, Shaanxi Province, was member of the Standing Committee of the Political Bureau of the CPC Central Committee and of the Secretariat of the Central Committee. At the Fourth Plenary Session of the Thirteenth Central Committee of the Party held in 1989, he was removed from his posts as member of the Standing Committee of the Political Bureau, the Political Bureau and the Secretariat. P. 360

<sup>303</sup> This refers to the five basic features of imperialism expounded in Lenin's article entitled "Imperialism, the Highest Stage of Capitalism." They are: (1) the concentration of production and capital is developed to such a high degree that it creates monopolies which play a decisive role in economic life; (2) the merging of bank capital with industrial capital, and



the creation, on the basis of this “finance capital,” of a financial oligarchy; (3) the export of capital as distinguished from the export of commodities acquires exceptional importance; (4) the formation of international capitalist monopolistic associations which divide the world among themselves; and (5) the territorial division of the whole world among the biggest capitalist powers. Lenin held that, during the stage of imperialism, the world had already been divided up; in redividing the world, imperialist countries had to reach for every piece of territory. Therefore, one of the important features of imperialism is that a few great powers want to fight for hegemony, i.e., territories. P. 361

<sup>304</sup> Zhang Guangdou was then professor of Qinghua University and an expert in water conservancy. Chen Zhikai was then director of the Institute of Water Resources of the Chinese Academy of Sciences. P. 366

<sup>305</sup> After the Fourth Front Army of the Chinese Workers’ and Peasants’ Red Army joined forces with the Second Front Army in July 1936, Zhang Guotao reluctantly agreed to march northward together with the Second Front Army, having been persuaded by the CPC Central Committee and by Zhu De, Liu Bocheng and the officers and men of the Fourth Front Army. In October of that year, they arrived in Huining, Gansu Province. In late October, part of the Fourth Front Army, on orders from the Central Military Commission, crossed the Yellow River to carry out the Ningxia Battle Plan. In early November, in accordance with a decision of the CPC Central Committee and the Central Military Commission, the army that had crossed to the west bank of the Yellow River was named the Western Route Army. The army fought under extremely difficult conditions for four months without any support from the outside and annihilated over 20,000 enemy troops. Due to a lack of forces in fighting a strong enemy, they were defeated in March 1937. P. 369

<sup>306</sup> This refers to Deng Yingchao (1904-92), a native of Guangshan, Henan Province, who was then a member of the CPC Central Committee and a vice-chairwoman of the All-China Women’s Federation. P. 370

<sup>307</sup> The revenue sharing system is a financial system which was adopted throughout the country since 1994. The system determines sound expenditure limits for governments at all levels according to the duties and responsibilities of the central and local governments. According to this system, taxes are divided into three categories: central regular revenue, local regular revenue, and central and local shared revenue. The revenue sharing system links financial power with duties and responsibilities; it establishes the taxation network and the taxation institutions of both the Central Government and the local governments. The State Administration of Taxation takes charge of collecting central regular revenue and central and local shared revenue; the local administrations of taxation take charge of collection of local regular revenue. The system plays an instrumental role in establishing and improving the socialist market economy, further straightening out financial distribution and increasing the ability of the Central Government to control the macro-economy. P. 371

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