

BRINGING FINANCIAL AND ECONOMIC WORK UNDER UNIFIED MANAGEMENT

December 28, 1949

A. Since we have many new liberated areas, creating a system of basically unified management for the work of the major economic departments (e.g., those in charge of finance, taxation, public grain¹⁸ and trade) will represent a great leap in our administrative work and will no doubt cause many problems. Judging from objective conditions, however, there will be even more disadvantages and bigger problems if we do not institute such a system. The reasons for this are as follows.

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

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

3. Now that we have a unified currency⁹ and regular means of remitting money and transporting goods between areas south of the Great Wall, any monetary and price upheavals will affect the whole country. With the exception of the Northeast, no region can be immune from the consequences.

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

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

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

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

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

1. A share of all local taxes, with the exception of customs duties, the salt tax, the commodity tax⁵² and the industrial and commercial tax,⁵³ should be given to local governments. However, we should set quotas for local taxes and compare the receipts with local expenditures. If there is a surplus, a percentage should be turned over to the central authorities; if there is a deficit, the central authorities should make up part of it. Local governments should be entitled to 50 to 70 per cent of all receipts in excess of the quotas.

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

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

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

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