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Speeches/Documents

Title: SIX PRINCIPLES FOR FINANCIAL WORK

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Description:

I shall now discuss the six principles for future financial work.

First, the budget should be made by central departments. Why? Because our budgets of the past few years, particularly the one of 1953, contained risky provisions. The greatest risk lies in that the Ministry of Finance makes policy decisions for all departments, which shows ignorance of the fact that policies are embodied in figures and that to decide on figures is to make policies. Having central departments prepare the budget is a matter of policy. The amounts allocated indicate the importance and urgency of projects, as well as which projects should be undertaken and which should not, and therefore this is a political question. When the Ministry of Finance makes decisions for the departments, some people say it "has the money but no policy for spending it". It does have a "policy", but it is not the correct one. In the past the Ministry of Finance exercised too much control over departments, only to elicit complaints for the following two reasons. One, as it drew up the budget behind closed doors, it was criticized right and left whether it allocated funds to the departments or not. Two, as the budget was not worked out by central departments, the ministry was not in a position to exercise effective control while trying to have a finger in every pie, thus becoming the main target of attack. If the budget is prepared by central departments, it will be easy to control and decide on it. Therefore, all projects must be covered by budgets that are worked out by central departments. However, this does not mean the Ministry of Finance will have nothing to do with budgeting; it still has the right to intervene and offer suggestions. When offering suggestions, the ministry takes the overall situation into account, making sure that the state can afford the expenditures allocated and that they conform to the growth rate of the national economy. A budget cannot be decided on by a department itself; the department has to consult with other departments concerned. Departments at all levels are in favour of the principle of having the central departments preparing the budgets. There are no central departments to be responsible for the preparation of some of the budgets. Once there are, things will be easier.

Second, departments should shoulder the responsibility for their own finances. Will they have to do so forever? Not necessarily, although some of them may for a long time to come. At any rate they will have to do that in 1954 and many of them in 1955, too. The chief purpose is to control the budget. We made this decision because after the budget for 1953 was adopted on February 12, the general reserve fund was used up by the end of March, and in August, revenues and expenditures were well out of balance, resulting in a deficit to the tune of more than 21,000 billion yuan. In order to control the budget we have decided from now on to hold departments responsible for their own revenue and expenditure. Departments are divided into two levels: central and local. At the central level is the Financial and Economic Commission, which is in charge of overall affairs. Its No. 4 Office is responsible for the finances of the departments of agriculture, forestry and land reclamation, and water conservancy; the No. 3 Office for the finances of the department of transportation; the No. 2 Office for the finances of the departments of finance, banking and trade; and the No. 1 Office for the [finances of the department of industry](#). The total amount of the budgeted investment will be examined and

approved by the Financial and Economic Commission and the Planning Commission. Investments in individual undertakings and projects will be decided by the departments concerned in the light of importance and urgency. At the local level are the [greater administrative areas](#) that will be charged with the responsibility of regulating their finances. At present, financial affairs are supposed to be administered at three different levels, but in fact they are managed only at two, that is, the central and the greater administrative area levels, because it is difficult to do it at provincial level now. In future such affairs will be administered at this level, too. Some people want to know if they should be responsible for their revenues as well as for their expenditures. Of course, they should. According to the directive on the budget for 1954, total revenues are not to fall below previous levels and efforts should be made to exceed them; total expenditures are not to increase and efforts should be made to save them. From this we can see that the departments are also responsible for their own revenues. Only in this way can we maintain a stable budget that we can actually meet. There are many advantages to holding departments responsible for their finances. One result is that the budget has remained stable by and large over the past two months since the directive on the budget for 1954 was issued on November 10, 1953. This is something we have never seen before.

Third, departments can retain their own reserve funds and keep any surplus for their own use instead of turning it over to the state. This principle is the most controversial; some of our comrades and Soviet experts do not agree with it. Actually, without this principle people would not be enthusiastic about anything, and it would be impossible to have budgets prepared by competent departments at central and local levels or to hold departments responsible for their finances. With this principle people will have the courage to introduce the two practices just mentioned and local authorities will have something to fall back on in case of emergency. This time we have decided to set aside three to four per cent of the budgeted figure as working fund for 1954 and three to five per cent as reserve fund. We have now laid all our cards on the table for everybody to see and to help manage the financial affairs of the state. Let's stop working out the budget behind closed doors and see that the general budget is not exceeded. Surpluses (excluding that from capital construction) are not to be turned over to the state.

Fourth, we shall reduce administrative personnel and strictly control the size of staffs. It could be dangerous if we do not do this. The reasons are obvious.

Fifth, the general reserve funds cannot be used without the approval of the central authorities. This will make us think twice before asking for approval to use the funds. The power of approval should be in the hands of the Political Bureau of the Central Committee, not the Ministry of Finance. In the past, a considerable portion of the state's general reserve funds has been spent on trivial things, as was the case in 1953. Now with this principle we can check such a practice. The benefit of this principle lies in that it lets people know it is difficult to obtain access to the general reserve funds. The funds are reserved for important purposes, not insignificant ones.

Sixth, we shall strengthen financial supervision. This principle was emphasized by Chairman Mao at a meeting of the Central Committee and will serve as the key link in our future financial work. There has been enormous waste in our finances. Chairman Mao said, "If we could save 10 per cent on some projects, it would mean an immense amount." Ten per cent of the state budget is equal to over 20,000 billion yuan. Therefore, we must strengthen financial supervision.

Why have the six principles been formulated? To put it briefly, it is because of the following:

First, an important political aim is to put the country's finances on a long-term stable, reliable foundation. Today our state finances are not stable enough to stand any severe test. We must be aware of this situation and try hard to end it. All of us should discuss this problem and find ways to solve it. Our finances were not stable in the past. In 1950, when the country had just been liberated, the finances were not stable because of unstable banking; in 1951, when we had to fight in the War to Resist U.S. Aggression and Aid Korea, it was impossible for us to maintain stable finances; in 1952 the situation was relatively good; and in 1953, since the general reserve funds were used up too soon, we had to "extort" more than 40,000 billion yuan from departments at both local and central levels. Everything will be fine if no major problems crop up; otherwise, we will be at the end of our rope. The policy of building up a country should be designed to build up the strength to resist foreign aggression and deal with emergencies. If we "extort" all the local reserve funds, we would have no money for situation such as the War to Resist U.S. Aggression and Aid Korea, serious famine, the building of a huge emergency project or the introduction of new technology. In that case, we would have to levy more taxes and reduce subsidies for everybody, which would give rise to complaints everywhere. Another method would be to cut back necessary expenditures, reducing investment in national industrialization and socialist transformation. That would produce even more drastic effects, shaking the foundations of our society. Building a solid base for our financial reserves hinges on economic development. In order to develop the economy and ensure the stability of prices, industrial and commercial enterprises must have a fixed amount of working fund and banks must have enough reserve funds, of which they have had not enough or nothing at all in the past. Moreover, departments at all levels in greater administrative areas have already spent all their reserve funds, leaving themselves with no working fund to carry on. It will take us several years to build up a stable foundation for the state's finances. To this end, we must build up reserve strength and lay foundations in all fields of endeavor. How we should do this remains a question to be studied, but it should be done gradually on a year-to-year basis in the light of economic development until the base is large enough. For example, we must first figure out how much money commercial enterprises and banks need to sustain their normal operations and then appropriate a certain amount of money for them every year until they are on a solid foundation and we can stop worrying about them. Only after providing them with adequate funds, can we check up on their work on strong grounds. But for now, they may attribute their failure to our not having supplied them with enough money. We should also gradually help replenish the reserve funds of central and local enterprises. If we can accomplish this task in a few years, we shall be in a position to deal with any emergency and can avoid falling into dire straits. So, we must accomplish this. It not only calls for the efforts of the Ministry of Finance but also those of everybody else. Allowing departments to retain reserve funds does not mean allowing them to be extravagant, but helping them to build up their foundations. For the first step, it is hoped that the Ministry of Finance will be able to accumulate 10,000 billion yuan over and above the reserve funds. If the funds from the greater administrative areas, the provinces and the municipalities are included, it is hoped the amount will reach 20,000 billion at least, which will be enough for us to cope with any emergencies. This is my own opinion, not a final conclusion, since it has not yet been discussed by the Central Committee. This way when unforeseen problems arise, the central authorities will be able to collect money from the local authorities, who will be ready to turn over their money out of patriotism.

Second, unless it has reserve funds, the state will not be able to concentrate financial resources on socialist industrialization and socialist transformation. The Party's general line

for the transition period is to build a great socialist country, which must be guaranteed through maintaining proper finances. Without stable finances, building such a country would be out of the question. Only when budgets are worked out by central departments and departments are charged with the responsibility for their finances shall we be able to accumulate surplus reserve funds to spend on important projects, not on trivial ones, keep the state's general reserve funds from being wasted and place industrial development on a firm foundation.

Third, in order to put the country's finances on a stable basis and ensure socialist industrial development, we must curtail all expenditures possible and check waste. However, we cannot do this without these six principles, which are needed to rouse the departments to play a positive role in managing their own finances. As things are very complicated today, we shall get nowhere if we just depend on a few regulations, decrees and measures; we must also act in the light of local conditions. Things will be easier to handle if all of us take an interest in managing our own finances. It is also necessary for local authorities to take an interest in practicing economy, without which waste would ensue.

Since the six principles have so many advantages, we can say they are correct for today, at least. Of course, things may change in future, but we must act according to these principles today.

(Excerpt from a report delivered at a national conference of directors of financial departments and bureaus. At the time Comrade Deng Xiaoping was Vice-Premier of the Government Administration Council and Minister of Finance.)