

ISSUING GOVERNMENT BONDS TO REDUCE THE FINANCIAL DEFICIT

December 2, 1949

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

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

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

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

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

The year 1950 is only a month away. How will the government fare in terms of revenue and expenditure next year? Will the situation be better than it has been this year? These are questions that concern us all. The Central Financial and Economic Commission⁷ has put forward Draft Budget Estimates for 1950, and Comrade Bo Yibo³⁸ is going to explain some aspects of it. Because many areas were liberated only a short time ago, because many others still remain to be liberated and because we are still in the midst of war, there are bound to be some changes in the figures for revenue and expenditure given in the Budget Estimates. But roughly speaking, despite another enormous deficit, the government will be in much better financial shape next year than this. The question before us is: Are we to make up the deficit exclusively by issuing more bank notes, as in the past, or should we seek a better solution?

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

Not all these measures together, however, can substantially reduce the government's financial burden, and self-sufficiency through production cannot be achieved immediately. Consequently, the Government Administration Council⁴⁰ has submitted to the Central People's Government Council a

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

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

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

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