

TIGHTENING CONTROL OVER THE MARKET AND TRANSFORMING PRIVATE COMMERCE

July 13, 1954

1. Since nationwide economic development began in 1953, many new problems have arisen in our domestic market. One of the most important is that the supply of many commodities such as food, clothing and other daily necessities is unable to meet demand. This is because the state has invested heavily in economic and cultural projects, more people are working and payrolls have expanded. At the same time, agricultural production has increased and the purchase prices of farm products have been raised. All this means that purchasing power throughout the country has risen even faster than it did during the recovery period.¹⁴² Indeed, it has grown faster than the output of consumer goods and the manufacture of the means of agricultural production. This is a long-term trend; the gap between purchasing power and the supply of commodities will continue to widen for some time to come. Since there are still quite a few small-scale producers and private merchants in our country, the situation in the market is very complex. We must therefore pay close attention to the many shortages of goods and the potential for instability in the market. A stable market is a prerequisite for economic development. This means that our major task in commerce is to guarantee smooth economic development by maintaining stability in the market even during this period when supply is unable to meet demand.

2. The basic solution to the shortage of commodities is to increase production. But because of limitations on the growth rate of production in general, and of agriculture in particular, we must adopt appropriate measures to guard against hoarding and speculation by private merchants. At the same time, we must prevent small producers from holding back their products and consumers from buying in panic.

Directive to Party committees, drafted on behalf of the Central Committee of the Chinese Communist Party.

In the summer of 1953 state-run commercial enterprises began to order more goods from private manufacturers, either providing raw materials or not, and to increase the number of goods the sale of which is monopolized by the state. Last October and November we began practising planned purchase and supply of grain and oil-yielding crops and introducing more planning into our purchase of other major farm and sideline products. These measures basically put the state directly in control of the sources of manufactured goods and farm products. At the same time, for grain and oil-yielding crops, they helped to reduce the proportion of sales to purchases, thus maintaining stability in the market for those commodities.

When supply cannot keep up with demand, to maintain market stability it is indispensable to gain control of the source of goods through planned purchasing and to gain control of the volume of sales through planned supply. For some time to come, therefore, the state will gradually increase the number of different commodities subject to planned purchase and supply. Everyone in the Party should clearly understand this and be fully prepared for it. While improving the planned purchase of farm products, we should pay particular attention to increasing the variety of goods under planned supply and to improving our work in that area as well. We must understand that to maintain a stable market it is not enough to bring the main sources of manufactured goods and farm products under the direct control of the state. It is also essential to use planned supply to control the volume of sales of certain major goods of which there is a shortage and to try to distribute them rationally, in accordance with the requirements of national development and people's daily needs.

3. After the above measures were put into practice, relations in the market changed radically. State stores gradually squeezed out private wholesale merchants. By the end of 1953 the state sector occupied about 70 per cent of the wholesale market. Most private retail merchants can no longer rely on private wholesalers or on producers for goods, as in the past, but have to turn to state stores and cooperatives. These stores have to organize the procurement of goods not only for themselves but also for private retail merchants. As a result, the old free market has shrunk considerably, while the state commercial sector has increasingly taken responsibility for exercising unified management over the market as a whole and for guiding and supervising the private sector. This reorganization of market relations provides a fundamental prerequisite for the socialist transformation of private commerce by the state, reorienting the whole commercial structure to the needs of national development. This is very good.

However, it also inevitably causes strained relations between the public

planned supply will be increasing for a long time to come, neither the number of state stores and cooperatives nor the variety of goods that they alone are authorized to sell can be reduced. Therefore, the measures adopted in 1952 to readjust commerce are no longer appropriate under current conditions and must be abandoned. The correct policy for the present is to take full advantage of the current favourable conditions presented by the change in market relations to carry out the socialist transformation of private commerce. We must make plans and proceed on a trade-by-trade basis, gradually converting the existing small private wholesale and retail enterprises into different forms of state-capitalist enterprises.

It should be noted that the socialist transformation of private commerce is an extremely difficult task that will meet with all kinds of resistance from the private merchants. Throughout the transformation process, the struggle between us and them, between restriction and opposition to restriction, will be complex and fierce. Although we have basically completed the task of squeezing out the private wholesalers, we still need to consolidate our success by doing some sound, practical work regarding arrangements for their personnel and disposition of their capital.

A more complicated and difficult task will be to transform the private retailers. This is not only because there are so many of them, but also because they belong to the petty bourgeoisie, and all their spontaneous leanings are towards capitalism. We cannot put them onto a state-capitalist basis without a struggle. Even after they have been transformed into state-capitalist retailers, there will inevitably be frequent struggles as we try to remould the management of their operations, establish a rational supply network, prevent them from making fake or adulterated goods or creating a black market, and strictly supervise them to ensure compliance with all the rules and regulations concerning selling on consignment and commission. As we gradually change most of the personnel in private retailing into the staff of state stores and cooperatives, we must give them systematic job training and help them remould their ideology.

4. In the light of the conditions mentioned above, we have made the following specific plans for the transformation of private commerce.

First, with regard to wholesalers. In general, those who are primarily retailers but also do some wholesaling, should concentrate on their retail operations. Those who are primarily or exclusively wholesalers, and who are able to continue operating as such, should be allowed to do so. Some of them—as many as needed—may act as wholesalers for the state stores. Those who can change to dealing in a different commodity should be helped to do so. In wholesale houses where none of these solutions is possible, the workers and

and private sectors of commerce and makes things difficult for private merchants. At present there are more than a hundred thousand private wholesale merchants in large cities who cannot do business for lack of goods. Private merchants in smaller towns are seeing their volume of business decline, because the state is buying more of the major farm and sideline products. In the cities, the sales of private merchants have also fallen off because the state has monopolized the sale of grain and cooking oil. Furthermore, because state stores and cooperatives have begun to handle a wider variety of goods and to increase their retail sales more than they should have done, the private retail sector has been rapidly diminishing. All this has wreaked havoc among private retail merchants.

Since the general line for the transition period was publicized in the countryside, private merchants are no longer welcome there.¹⁶² The cooperatives, however, are unable to deal in all local specialties, and as a consequence, trade in some minor farm and sideline products has come to a halt.

These are all examples of the current difficulties in private commerce. In China there are many people engaged in private commerce (seven or eight million shopkeepers and peddlers) and if we unthinkingly squeeze all of them out, leaving them no way to make a living and making no arrangement for their welfare, it will lead to an increase in the number of unemployed and cause unrest in society. This must be prevented or, where it has already happened, corrected.

In November 1952 the Central Committee decided that to solve the problems in private commerce brought on by the temporary market stagnation that followed the movements against the “three evils”¹¹² and the “five evils”,¹²¹ it was necessary to readjust commerce. In its Directive on Readjustment of Commerce,¹³³ the Central Committee declared that to help private retailers stay in business, the differentials between wholesale and retail prices should be increased, that the number of state stores and cooperatives should be reduced and that they should no longer have a monopoly of so many goods. Similarly, it stated that to help private wholesalers, price differences between regions should be widened, and state stores and cooperatives should leave the wholesale trade in certain commodities to private dealers.

These measures were necessary and correct at the time. Under the current circumstances, however, when demand for many goods exceeds supply, if we wish to stabilize the market, we can no longer relinquish control over the major sources of manufactured and farm products, allowing private wholesalers to distribute them to retail merchants. With only a few exceptions—and these will be readjusted—the current wholesale-retail price differentials are appropriate. At the same time, because the variety of goods covered by

the managers serving the capitalists may be given some job training and employed by state stores. Private wholesale merchants whose personnel have already gone to work in state stores should be encouraged to employ their capital in useful undertakings under the guidance of state organs in charge of industry and commerce. Persons who hold responsible positions in capitalist enterprises, who want to work and are not too old to do so but cannot find jobs, should be trained and employed by state enterprises, as long as they have no political problems. To facilitate their remoulding, they may be assigned to any unit that does not deal with confidential matters; for example, they could work in enterprises handling commerce, grain supply or banking or in cooperative stores.

Second, with regard to retailers. Most of these—with the exception of those who must or may go into other lines of work—should convert their enterprises into cooperative or state-capitalist stores. State stores should allocate sources of supply, distribute goods in demand, adjust wholesale-retail price differentials and gradually unify state-sector and private-sector prices, in such a way as to ensure that private retailers get a certain volume of business and can make a living. The cooperatives and the state stores may make concessions regarding the proportion of certain goods they retail, but they must retain enough volume to keep the market stable. When distributing goods, state wholesale enterprises should make simultaneous arrangements with local peddlers and shopkeepers dealing in the same commodities, limiting the amount sold to peddlers to avoid squeezing out the shopkeepers. The peddlers will be harder to transform than the shopkeepers, and we should tackle them only after dealing with the shopkeepers. Private retailers who sell grain and cooking oil, which we are now supplying to them on a consignment or commission basis, have already been transformed into state-capitalist retailers.

In the second half of this year in all large and medium-sized cities, private retailers trading in one or two other commodities should be transformed into state-capitalist retailers, again by switching them to commission or consignment sales. This should be made clear to the private retailers so that they can go about their business without anxiety.

In transforming private retailers in towns and counties we should start with a single commodity, so as to gain experience before gradually broadening the experiment.

Since the variety of goods the state stores and cooperatives handle is not the same in the cities and the countryside, we must organize the work with private retailers in the two areas differently. The state stores will be responsible for the transformation of private retailers in the large and medium-sized

cities, while the cooperatives will be responsible for those in the towns. As for the transformation of private retailers in small county towns, it should generally be the responsibility of either the state stores or the cooperatives, or of both working together, as decided by the provincial Party committee according to local circumstances. When cooperatives run into problems in dealing with private retailers, the state stores should help them in any way possible.

Third, with regard to private importers and exporters. Basically, the socialist transformation of these people should be carried out in the same way as that of private wholesalers. At the same time, state organs engaging in foreign trade should try to introduce joint state-private management, to commission sales to private import and export agencies and to use other state-capitalist forms, guiding and supervising the private agencies in their trade with capitalist countries but allowing them to use their initiative to the full.

Fourth, in order to make exchange between the urban and rural areas smoother and to stimulate the market for agricultural products, local authorities should take the following measures, as suited to their specific conditions. 1) Set up an extensive state-run market for grain, in which private grain merchants have no part. 2) Hold fairs for agricultural products. 3) Organize street peddlers to buy and sell goods for the cooperatives on commission. 4) Eliminate any regulations imposed by town or township people's governments for the purpose of restricting trade between localities. 5) Where only small quantities of local specialties are produced, arrange for them to be purchased by both state and private wholesalers, or to be purchased exclusively by the cooperatives, which would then distribute a portion of them among the private retailers.

Fifth, to slow down the decline in the private retailers' volume of business, state stores and cooperatives should generally maintain sales at their present level until the peak season of 1954. However, in certain regions or for certain commodities the volume of business of the public sector may be allowed to increase or decrease. When it increases, arrangements should be made for the private merchants in that region or dealing in that commodity according to the above principle of division of responsibility between the state stores and cooperatives.

5. In order to adapt to the recent changes in the market and carry out the policies on transformation of private commerce, we must exercise unified control over the market throughout the country and coordinate our work. To this end, the following things should be done.

First, the Ministry of Commerce should be designated to exercise unified

leadership over all the state, cooperative and private stores of the country. It should take responsibility for planning the flow of essential commodities between various commercial departments and between different regions, controlling the ratio between state and private business and determining commodity prices.

Second, the variety of goods handled should be divided between the urban and rural markets according to the principle of the division of responsibility between state stores and cooperatives. That is, state stores should be responsible for the market in large and medium-sized cities and in manufacturing and mining areas, while cooperatives should be responsible for the market in the smaller towns and in the countryside. The market in most county towns and larger towns will be the responsibility of either state or cooperative stores, or of both working together, as decided by the provincial Party committee according to individual circumstances. The Ministry of Commerce and the All-China Federation of Supply and Marketing Cooperatives should get together to decide on a division of responsibility according to the principle outlined above and gradually put it into effect. Handicraft products should still be bought and sold by the cooperative stores in all areas. To strengthen control over the market, a financial commission should be set up in every county. This body should maintain close contacts with the provincial department in charge of state stores and together they should work out plans for the purchase and sale of commodities, control the proportion of business among state, cooperative and private stores and make uniform arrangements for the operations of private merchants.

Third, the urban market and the rural market should support each other. When non-staple food items are in short supply, consumption in small and medium-sized cities and towns should be reduced to ensure an adequate supply for large cities and manufacturing and mining areas. Manufactured products needed in both urban and rural areas should go first of all to the countryside, in order to encourage the peasants to sell their own products.

Fourth, with the exception of certain items such as grain and oil-yielding crops, whose export is limited, the quantity of most commodities to be distributed on the domestic market will be determined for a long time to come by the quantity needed for export. For certain commodities—meat, for example—domestic consumption should be limited to ensure adequate supplies for export. Certain others—fruit, tea and various local specialties—should be allocated first to the export market, with any surplus going to the domestic market. This is necessary to enable us to import the industrial equipment needed for development.

6. Party committees at all levels must exercise more effective leadership

over commerce and see to it that state and cooperative stores are well-organized with competent cadres. They should explain to Party cadres why many goods are in short supply and why indiscriminately raising the purchase prices of farm products would enlarge the gap between purchasing power and commodity supply, aggravating the shortages. They should also explain that planned purchase and supply are necessary to maintain a stable market and ensure development. They should make it clear why large cities, manufacturing and mining areas and export must receive priority in the supply of certain commodities. They should also make it clear why we should not ignore the difficulties of private merchants and simply squeeze them out and why we must instead transform them into state-capitalist businessmen.

After receiving this directive, Party committees at all levels should discuss it and work out measures to carry it out.