

MEASURES TO CHECK THE SHARP RISE IN PRICES

November 13, 1949

1. Since October 15 of this year a substantial depreciation of currency and a sharp rise in prices have been reported from all over the country, first from Shanghai and Tianjin, then from central and northwest China. Taking as a base the figures for the end of July, as of now the average price index in the various regions has risen as follows: in Beijing and Tianjin by 180 per cent; in Shanghai by 150 per cent and in central and northwest China by almost the same amount. Setting aside some special factors in certain areas (such as the high price of cotton and the rapid sale of cotton yarn in Shanghai and the high price of grain in the disaster-stricken areas of north China and in the cotton-producing areas), the basic cause of the current price rises is the enormous increase in the amount of bank notes that have been issued. By the end of July they had reached 280 billion yuan,² by the end of September ¥810 billion, by the end of October ¥1,100 billion, and now the figure is ¥1,600 billion. This almost six-fold increase has caused the currency value to drop substantially and commodity prices to rise sharply.

2. Since the end of July the amount of money in circulation has increased, owing to such factors as the expansion of the territory under our control, the diversion of more bank notes to the countryside,²¹ an increase in farm production and the recovery of industry and commerce. As stated above, by the end of July the amount of money issued had reached ¥280 billion, the equivalent of 10 million bolts of cotton cloth, or 1 billion kg. of grain (average figure for rice and millet taken together), calculated in terms of the prices at the time. By now it totals ¥1,600 billion, the equivalent of 20 million bolts of cotton cloth, or 2 billion kg. of grain, according to current prices. Since the end of July, the

Telegram addressed to the greater administrative regions,¹¹ and to other units under the Central Financial and Economic Commission of the Government Administration Council.⁷

velocity of currency circulation has remained roughly the same, which means that it has been very high. We estimate that the territory within which our currency circulates has doubled in area. Accordingly, the average prices nationwide are nearly 200 per cent higher than they were at the end of July. On the basis of these prices, the total amount of money needed in areas south of the Great Wall is ¥1,600 billion. So it is now possible to stabilize prices, even though it was impossible two weeks ago, when we hoped to keep them at the level of the end of September. That's because between early October and now, we issued nearly ¥800 billion in bank notes without having enough commodities to absorb such an enormous amount of money. If we had nevertheless tried to stabilize prices with only the small amount of goods available, we would have depleted our resources without achieving our purpose. There has been a three-fold increase in prices, but it has become possible to stabilize them, and all local authorities should make every effort to do so. To this end, the following directives are issued:

1) An attempt should be made to limit the price increase to 300 to 320 per cent of the average price index for Shanghai and Tianjin at the end of July.

2) Every day from November 15 to 30 northeast China will transport 5 to 6 million kg. of grain south of the Great Wall to meet the needs of Beijing and Tianjin. Trading companies in northeast China, Beijing and Tianjin will do all they can to ensure the loading and unloading of freight cars, and the Ministry of Railways will see to it that the empty cars are sent back to the Northeast.

3) To make sure that the city of Hankou and Hunan and Guangdong provinces have adequate supplies of cotton yarn and cloth, Qian Zhiguang will be sent first to Shanghai and then to Hankou to find out what amounts of those products are available there; then we can take appropriate action.³³ At the same time, central China is urged to transport its raw cotton to the east.

4) The Northeast Financial and Economic Commission will send personnel to arrange for the quickest possible transport to Xi'an of the cotton yarn and cloth stored in cities situated along the Longhai Railway.

5) To meet the demand for grain in the cotton-producing areas, from November 16 to 30 the Ministry of Finance will transfer to the Ministry of Trade³⁴ 105 million kg. of public grain,¹⁸ to be delivered in areas north of the Dezhou-Shijiazhuang Railway and in Pingyuan Province.³⁵

6) Beginning from the date of receipt of this telegram, the People's Bank of China and its major branches will cease granting loans, with the exception

of special cases approved by the Central Financial and Economic Commission or by the financial and economic commissions of the greater administrative regions. In the meantime, loan payments should be collected according to the original agreements. A directive will be issued later regarding the resumption of loan service.

7) Beginning on or about November 25, the authorities of major cities will introduce taxes that will help withdraw money from circulation.

8) Beginning from the date of receipt of this telegram, the financial and economic commissions of the greater administrative regions will temporarily stop disbursing funds to be invested in industrial and mining enterprises or to be used for purchasing agricultural and industrial products. Funds for such purposes that have already been approved by the CFEC are excepted.

9) The CFEC and the financial and economic commissions of the greater administrative regions will defray all local military expenses (except the cost of building warehouses). On no account are funds for this purpose to be withheld. The local Party, government and military authorities, however, are asked to instruct the comrades in charge of army logistics that none of these funds may be used for commercial activities.

10) Where possible, payment of any local administrative expenses should be delayed for fifteen to twenty days.

11) Except for goods that must be supplied for the retail market, local trading companies should not sell any large quantities of essential commodities for the time being. Instead, they should transfer such commodities to the major centres, trying to complete this process by November 25 (or November 30 at the latest). We plan to sell these goods simultaneously in the major cities starting some time between late November and early December. To keep the Central Financial and Economic Commission informed and to ensure co-ordination, local authorities should report to the Commission on the preparations they are making. A date will then be set to take simultaneous action.

12) To teach the speculators a lesson along the way, the following has been decided:

(A) We should take advantage of the current widespread panic buying to sell to the speculators goods for which there is only a sluggish market or no market at all. However, we should not sell them any essential commodities.

(B) When, with less money in circulation and stable prices, merchants want to dispose of their essential commodities, we should lose no time in purchasing them.

Please discuss the above measures, make the necessary preparations for their implementation and send us, by telegram, any comments you may wish to make. You should see to it that no preparatory arrangements are revealed to the public through the press or other channels.