

OVERCOMING DEFICIENCIES IN OUR FINANCIAL AND ECONOMIC WORK

September 14, 1953

In the first half of this year the market was stable and the economy was expanding. Except for agricultural production, in which natural disasters have made it difficult to fulfil quotas, the present situation in all areas of production is good. On the whole, our economic work has been successful, including in the area of commerce, and so has our financial work.

Now I should like to say something about certain deficiencies in our financial and economic work.

First, about tax collection.

We had several successes in tax collection in the first half of the year. First, we took in 43 per cent of the total amount planned for 1953. The experience of the past few years has shown that we can usually collect 40 per cent of the tax revenue in the first half of the year and the other 60 per cent in the latter half. So we did well to collect 43 per cent. Second, tax collection was accomplished in accordance with policy, so from that point of view also we did well. Third, the attitude and work style of the collectors have improved. Nevertheless, during this period we made some serious mistakes in revising the tax system.¹³⁴

Between 1949 and 1952, there was a gradual increase in the amount of goods the state purchased from private manufacturers, to whom it paid a fee that included compensation for the business tax. There was also an increase in the amount of goods the state sold through private merchants, to whom it paid a commission that likewise covered the business tax. Accordingly, tax revenues fell, and we had to find a way to compensate for the loss. Under these circumstances, we were justified in revising the tax system, but we should have considered more carefully what changes were to be made.

According to the revised system, the business tax is not based on orders

Excerpt from a report delivered at the Twenty-fifth Meeting of the Central People's Government Council.

placed by the state with private factories or on the purchase and sales commissioned by the state. Rather, it is based on the volume of business of private retailers acting not as agents of the state but as independent businessmen. The new system was supposed to create equality between state-owned and privately owned enterprises.¹³⁵ But this “equality” actually means only that state-owned stores and cooperatives have one more tax to pay. Also, it implies that the wholesale business tax should be paid not by the wholesaler who purchases goods but by the manufacturer who sells them. In other words, that link in the tax chain has been shifted. These, then, were the two main mistakes we made when we revised the tax system: creating the so-called equality between state-owned and privately owned stores, and shifting a link in the tax chain.

Should there be equality between state-owned and privately owned enterprises? No. It is wrong to make them equal, because they are different in nature. First of all, state stores turn over all their profits to the state, while private stores only pay income tax. In addition, the two types of enterprises have different responsibilities. Private shops engage in business mainly to make a profit, although naturally they also serve to satisfy market demand. State stores, on the other hand, are in business not only to make money but also, and more important, to maintain production and keep the market stable. To maintain production, they must order goods from factories in both busy and slack seasons. They must purchase agricultural products whenever they are harvested, even if it takes them half a year to sell those products or a whole year to exchange them for imports. Otherwise, there would be little demand for them. We have to stock a considerable quantity of goods and raw materials in order to keep the market stable. That is the only way we can eliminate speculation by private businessmen. But if state stores are to stockpile goods, they must take out bank loans and thus incur interest.

Furthermore, at times they have to do business at a loss. For instance, we lose a large amount of money when we have to transport grain from Sichuan to Wuhan and Shanghai by cargo ship or warship, because the transport fee is high. Shall we put a tag on the rice on the Wuhan and Shanghai markets reading, “This rice is expensive because it cost a lot to transport it from Sichuan”? [*Laughter.*] We cannot raise the price, so we must sell at a loss. This is absolutely necessary from the national point of view. If the people’s government does not follow this policy, it will be making a great mistake. But will private businessmen do the same? Certainly not.

That is why I say state-owned and privately owned stores are different in nature. Cooperatives, however, are very similar to state stores, having the

same obligations. It may seem fair to propose equality between state stores and cooperatives on the one hand and private enterprises on the other, but actually, it is not. Equality between publicly and privately owned enterprises is wrong.

What is wrong with shifting a link in the tax chain? The problem is that the wholesale business tax is now paid by the factory. Exempted from this tax, private merchants can cut into the business of the state stores. They can purchase goods wholesale at the same price as the state stores, but sell them retail at lower prices. They are not afraid of buying goods in large quantities, because the more they sell the more quickly they get a return on their investment and the more profit they make. In this way, private stores will expand rapidly, which will be a heavy blow to state stores.

Shifting the burden of the wholesale tax onto manufacturers will also damage the interests of inland industrial enterprises. Take factories in Chongqing and Xi'an, for example. They used to pay only two types of taxes: a commodity tax⁵² and a factory-exit business tax. Factories used to sell large quantities of goods without paying a wholesale business tax. Now that this tax has been added, it has created great difficulties for inland factories and stimulated unplanned industrial development in coastal cities, such as Shanghai and Tianjin. As a result, during the first half of this year, many small manufacturers were driven out of business. That is not in conformity with state policy.

Our country is led by the working class, and the state sector is the dominant one in the economy. In such a country, the mistakes we have made in revising the tax system are mistakes of principle. Since we have already made them, what is to be done? I think that since the new system has already been put into practice, we should not restore the old one in haste, without proper preparation: that would create total confusion. Exactly how can we solve this problem? We must study it carefully. We have already introduced a new form of wholesale tax on wholesalers who were exempt from such a tax, thereby imposing a restriction on them.

In short, we must be cautious in modifying the tax system, because it affects all aspects of economic life.

Second, I should like to discuss the work relating to commerce.

Over the last few years state stores have played an important role in revitalizing the economy by organizing the flow of goods between town and country and between domestic and foreign markets. Thus they have promoted the restoration of industry and agriculture and stabilized the national market. In the first quarter of this year, however, the volume of business of state stores fell. This is not good. There were many causes, but the principal

one was that we had underestimated market demand and overestimated the supply of goods we had on hand; in other words, we thought the warehouses were too full. Putting forward the slogan, “The warehouses must be emptied”, we had reduced state orders for goods. As a result, by the first quarter of the year many commodities were no longer available on the market. That was one mistake we made.

Another mistake was that state stores purchased fewer products from state factories and more from private ones. Because they underestimated the market, they asked state factories to decrease production. However, since the workers went on working, the factories went on producing as much as before. When they wanted to sell their products to the state stores, the latter refused to purchase them. The factory people said, “If you don’t buy them, we’ll sell them ourselves,” but the state stores prohibited them from doing so. Naturally, the factory people were very resentful. Treating the state factories that way was another mistake of principle.

Lastly, some remarks about the budget and finances.

The budget for 1953 is basically correct, but it too has some deficiencies. It lists a cash surplus of 30 trillion yuan,² which I consider unrealistic. Let us analyse it.

The surplus consists of five parts: 1) Last year’s surplus transferred to this year; that is, money (including tax revenue, profits turned over to the state, etc.) received after December 20, 1952, that could not be used last year. 2) Expenses that are listed in this year’s budget but were paid last year. 3) Unspent funds for engineering projects extending beyond last year. 4) Surplus left over from last year in the budgets of central government departments and local authorities, income from industrial enterprises run by government departments and from tax revenue, etc. All the funds in this fourth category were turned over to the central government after the movements against the “three evils”¹¹² and the “five evils”¹²¹ last year. They come to a considerable amount, but we will never have such funds again. 5) The real surplus: for example, if ¥10 million is budgeted for building an auditorium, but only 9 million is used, then 1 million is surplus.

The first and second items occur every year; part of the previous year’s surplus is transferred to the current year and part of the current year’s surplus is used the following year. This year’s budget, however, shows only the amount carried over from the previous year. This means that the amount of funds available for the year, as shown by the budget, is larger than it is in actuality. Why didn’t we notice it until this year, when it appears to be a serious problem? The answer is that because of our inexperience, in the past

few years our budget calculations were not very accurate. The taxes and profits turned over to the state always exceeded our original estimates. Now, however, our calculations are fairly accurate, so we have less unexpected revenue. On the other hand, we have more unexpected expenditures. That is why the reserve fund is inadequate, and why, by the end of last June, there was a deficit of about ¥21 trillion.

The problem between the central financial departments and local financial departments is that the former have exercised too much control over the latter. In my report to the Central People's Government in 1952,¹³⁶ I recommended that financial work be centralized, which was right. But now we control everything down to the tuition for primary school pupils (some of which is not even paid in RMB but with a few kg. millet or some eggs).

Moreover, our control is too rigid. The Ministry of Finance allocates money to departments of education, industry and so on. If one department in a greater administrative region,¹¹ province or county does not use its entire allocation and another department needs money, the local authorities have no power to transfer funds. We are too rigid about this. Of course, special funds must be used for special purposes. We cannot allow money earmarked for building a factory to be spent on an auditorium instead. We should, however, give local authorities some flexibility; within a certain range they should have the power to transfer funds. Since the country is so vast and local conditions are so complex, we cannot, and must not, exercise too tight control over local authorities.

To solve this problem, we are preparing to define the responsibilities of the central and local financial departments. However, once this is done, we should make sure that the central government does not arbitrarily demand funds from the local authorities.

I have mentioned some of the mistakes that have been made in the fields of taxation, commerce and finance. For all of them, the Central Financial and Economic Commission (CFEC) and other competent ministries and commissions bear the responsibility. As director of the CFEC, I must take primary responsibility for these problems.

What is to be done about the deficit? Top priority should be given to expanding production and to saving money wherever possible. The first will increase our income, while the second will reduce our expenditure. All industrial, agricultural and commercial enterprises, be they state-owned or private, all government departments, army units and mass organizations, and all central and local authorities should make every effort to increase production and to spend with care. If everyone works hard, I think we shall be able

to make up the deficit and to get through the year without trouble. Of course, we shall have to keep trying to increase production and to trim expenditures not only during the remainder of this year but for years to come.