

THE CURRENT ECONOMIC SITUATION AND MEASURES FOR READJUSTING INDUSTRY, COMMERCE AND TAXATION

June 15, 1950

Eight months have passed since the Central People's Government was established. During this period the Government Administration Council⁴⁰ and its Financial and Economic Commission⁷ have done considerable economic and financial work, some aspects of which affect the entire country and the masses. In particular, we have done the following:

— Unified management and guidance of national financial and economic work;⁸³

— Collected public grain¹⁸ and taxes and issued government bonds to achieve a balance between revenue and expenditure and to stabilize currency and prices;

— Taken-over privately owned industrial, commercial and financial enterprises, reorganized them as state enterprises and enabled them to resume operation;

— Invested in transportation, water conservation, agriculture and certain industries;

— Readjusted relations between the public and private sectors and between labour and capital;

— Transported grain supplies to the big cities; and

— Allocated grain and funds for relief of people in disaster areas and unemployed workers.

Some of our work has already shown results; some is just beginning to do so. Our achievements have been made possible by the support and hard work of the masses, government personnel at all levels and democrats of

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various circles throughout the country.

There are shortcomings in all our work, and mistakes have been made in some areas. These, however, are largely due to inexperience and a lack of proper understanding of the situation, and they are being corrected.

The tasks ahead of us are as follows:

— To consolidate and expand our achievements, review our experience and analyse the present economic situation;

— To urge our cadres to work conscientiously towards the gradual fulfillment of the financial and economic tasks laid down in the Common Programme;⁷⁸ and

— To do all we can to bring about a basic improvement in the financial and economic situation so as to realize the aspirations of the people.

My report to the second meeting of the National Committee will deal with three questions that are of concern to us all: the current economic situation, the readjustment of industry and commerce, and the readjustment of taxation.

I. THE CURRENT ECONOMIC SITUATION

China's economy is at a historic turning point—the transformation, on a nationwide scale, of a semi-colonial, semi-feudal economy into an independent, new-democratic economy; the change from retrogressive, adverse conditions to progressive, favourable conditions.

The inflation and commercial speculation resulting from the long years of rule by the imperialists and the Kuomintang reactionaries are the retrogressive, adverse conditions.

Unless we change these conditions, we cannot stabilize the economy and the market and set production and distribution on the right track. Eliminating inflation and speculation is therefore the starting point for the establishment of the new-democratic economic order and the transformation of the national economy.

We can now say that we are beginning to succeed in this area, though of course we should not be complacent on that account. Greater undertakings are awaiting us, including many important economic tasks. We still have to overcome all the disasters caused by the rule of the imperialists and Kuomintang reactionaries. The wounds of war still have to be healed, and the people still face many difficulties. Moreover, we have experience in economic

work and must learn as we go.

It should be recognized, however, that we have already achieved some successes. Economic and financial work has been unified, state revenue and expenditure are approaching equilibrium, and our currency and prices are becoming more stable. There is no doubt that we have done good work in these areas, and thanks to our successes the economic situation is beginning to improve.

The masses have begun to feel the benefits of stable currency and prices. And quite a number of farsighted, patriotic national capitalists have come to realize that such stability will be beneficial to their businesses as well.

At present, industry and commerce are beset by difficulties. First, control of inflation and stabilization of prices have put a stop to the panic buying of the recent past and revealed that the high demand was abnormal. That is to say, during the past decade or more of inflation,⁴³ instead of holding on to their paper money, people chose to buy and hoard goods, not for consumption but as a hedge against the depreciation of currency. Now things are different. People have not only stopped hoarding but are dumping their hoarded goods on the market. As a result, for certain commodities supply temporarily exceeds demand. Business is bad and many industrialists and merchants are experiencing difficulties. But this situation will not last long. When the hoarded goods have all been sold, supply and demand will return to normal.

Second, because imperialism, feudalism and bureaucrat capitalism have been eliminated in China, certain industrial and commercial enterprises that developed in conformity with a colonial and semi-colonial economy have lost their markets. Also, many of the goods produced are substandard. Consequently, certain sections of industry and commerce have closed down, and workers have lost their jobs and need to be given relief or to find other work.

Third, because of overstaffing, irrational methods of operation, high costs and low profits or even losses, many privately owned factories and stores are losing business or being forced to close down. Changes will have to be made if these firms are to find a way out.

Fourth, there is no planning—only meaningless competition among enterprises in the same trade—and no coordination, so that supply in one place cannot meet demand in another. Thus, many enterprises have been obliged to reduce production or to cease operation either temporarily or permanently. Moreover, the long years of war and the great decline in people's purchasing power have caused a slump in industry and commerce. That is clear for all to see.

All these problems are left over by history. They are acute now because

the longstanding semi-colonial, semi-feudal economy has undergone radical changes. Although these changes bring some suffering with them, they are not bad in themselves. They will usher in a new life, reconstruction, prosperity and a healthy new-democratic economy.

These changes are the result of the great people's revolution, which overthrew the reactionary regime of imperialism, feudalism and bureaucrat capitalism and destroyed the economic order of that regime. In the words of Chairman Mao Zedong, "There have been reorganizations of varying degrees in the whole of the old economic structure."⁸⁴ These, then, are the changes now taking place. True, they cause hardships and difficulties, but they are hardships and difficulties arising from the transition to a new life and to reconstruction and prosperity, and for the most part they are only temporary.

Chairman Mao Zedong has analysed the situation and pointed out that hardships and difficulties are present only in the new liberated areas, whereas in the old liberated areas such problems have already been, or are being, solved. He has listed three conditions for solving these problems: 1) completion of agrarian reform;⁶⁴ 2) proper readjustment of existing industry and commerce; and 3) large-scale retrenchment in government expenditures.⁸⁵ We can fulfil these conditions throughout the country in about three years. There is no reason to be pessimistic about the economy. This is our brief analysis of the current economic situation in China.

II. READJUSTMENT OF INDUSTRY AND COMMERCE

This involves regulating many different kinds of relations. These include the relations between the public and private sectors of the economy, between different public enterprises, between different private enterprises, between financial enterprises on the one hand and industrial and commercial ones on the other, between city and countryside, between different parts of the country, between imports and exports, and within individual enterprises. Here, I am going to speak mainly about some policies and measures that the government should adopt to readjust relations between the public and private sectors.

As you know, the people's government protects national industry and commerce. The Common Programme recognizes the existence and development of all private capitalist economic undertakings that benefit, but do not control, the national economy and the people's living standards.

In China, which is industrially backward, for a long time to come it will be progressive and beneficial to the country and the people to have national capitalists invest in industry and develop it.

Although commercial capital is overexpanded in big cities, China is a vast country with a preponderance of scattered small producers; the existence of private merchants is, therefore, inevitable. The state allows private capitalists to engage in commerce so as to facilitate the exchange of commodities. This is to the advantage of both the country and the people. The people's government protects the interests of all capitalists whose undertakings are good for the economy and help raise the people's living standards, but it opposes the disruptive activities of speculators. The state sector is the dominant force in the economy.

These principles are our point of departure for the readjustment of relations between the public and private sectors.

The basic policy of the people's government concerning relations between the public and private sectors is clearly defined in Article 26 of the Common Programme. According to that article, "The state shall co-ordinate and regulate state-owned economy, co-operative economy, the individual economy of peasants and handicraftsmen, private capitalist economy and state capitalist economy, in their spheres of operations, supply of raw materials, marketing, labour conditions, technical equipment, policies of public and general finance, etc. In this way all components of the social economy can, under the leadership of the state-owned economy, carry out division and co-ordination of labour and play their respective parts in promoting the development of the social economy as a whole."

From this we can see that by relations between the public and private sectors we mean relations among the five sectors of the economy. Today I am not going to speak about all the questions concerning these relations, but only about certain ones that can and must be settled now.

We believe that the people's government should take the following measures to harmonize the public and private sectors and to minimize the difficulties that may arise at this historic turning point for our economy.

A. In the area of industry.

1. Whenever possible, the government and state-owned enterprises should place orders for manufactured goods with private factories, either supplying them with raw materials or not. The Central Financial and Economic Commission should centralize the orders placed by the various state enterprises, government departments and army units. It hopes to allocate these orders to both public and private factories once every six months. Contracts should be signed so that the factories can plan their

production.

2. The government should purchase more farm products to expand the domestic demand for manufactured goods and make it easier to export such goods so as to expand the foreign markets for them.

3. The government should encourage public and private enterprises to work together and it should make sure that both have sufficient capital to maintain production.

4. It should call on private enterprises to improve their management methods and their relations with labour, so that joint efforts can be made to overcome their difficulties.

5. It should take steps to unify and regulate the scattered productive enterprises belonging to government departments, army units and mass organizations. They will thus complement private enterprises, the handicrafts industry and the peasants' sideline production, rather than conflicting with them.

6. It should periodically inform the public which types of manufactured goods are being overproduced or are reaching the saturation point, so as to minimize the harmful effects of unwise investment.

7. It should undertake unemployment relief by organizing as many of the unemployed as possible to participate in key public projects in such areas as water conservancy and urban reconstruction.

B. In the area of commerce:

1. Article 37 of the Common Programme stipulates that "state-owned trading organizations [companies] shall assume the responsibility of adjusting supply and demand, stabilizing commodity prices and assisting the people's cooperatives." This requires that the government alter its price policies from time to time in light of changing economic conditions—that is, that it maintain an appropriate differential between wholesale and retail prices and between prices in various areas. The differential must be such as to offer appropriate profits to retailers and merchants in remote places, thus stimulating trade and facilitating the recovery and expansion of production.

2. Retail stores of all sizes set up by state trading companies should be restricted to a number sufficient to stabilize retail prices and keep speculators from disrupting the market. They should be allowed to sell only six kinds of daily necessities: grain, coal, cotton yarn and cloth, cooking oil, salt and kerosene. As for state wholesale companies, their function will be to withdraw currency from circulation and stabilize wholesale prices.

3. It is essential to the people's wellbeing that there be a market for farm products and that they be sold quickly. State trading companies purchase only the major crops, some other farm products for export and some

important sideline products. The government should encourage cooperatives and private merchants to buy the remainder.

4. To protect the legitimate interests of the peasants, the government should maintain appropriate prices for farm products. For the same purpose, it should ensure a wider market for such products by allowing persons who provide transportation and retail marketing to make due profits.

5. To facilitate the flow of goods between town and country, which will benefit residents of both, local people's governments should simplify the formalities for private merchants who provide marketing and transportation. They should also consider the interests of private merchants when formulating tax policies and procedures.

C. In the area of banking:

State banks should continue to work with private banks to grant loans and gradually expand banking business.

D. In organizing industry and commerce:

To help readjust relations between public and private enterprises, the government should encourage them to establish trade associations⁸⁶ and federations of industry and commerce,⁸⁷ which will meet from time to time to discuss issues of mutual concern.

Some of these measures have already been put into effect, and others will be soon. The first measure concerning industry—that the government and state-owned enterprises will place orders with private factories—is the most important one, both for the national economy and for private industry. *We* think that in implementing it, we should observe two principles:

First, the price the government or the state enterprise pays for manufactured goods, whether or not it supplies raw materials, must include the costs of production. These costs should not be calculated on the basis of the technical level of the particular factory in question, but on the basis of the level of the average factory in the same area under reasonable management. The same price should be offered to state-owned factories.

If, however, the order is placed not to meet the needs of the government or the state-owned enterprise but simply to keep a private factory from closing down, the price should be lower, so as to reduce the burden on the state. In any case, all prices and terms of delivery should be agreed upon by both parties and all contracts signed voluntarily.

Second, to make sure that orders placed by the government or by state enterprises are properly distributed among the various public and private factories, all such orders should be handled by the industrial and commercial bureaus of the local people's governments. All local federations of industry and commerce and of trade unions, trade associations, and industrial trade

unions should help make sure that contracts are fulfilled in terms of quantity and quality of goods and that deliveries and payments are made on time.

We believe that if the measures I have described are put into effect, they will help tide industrialists and merchants over this difficult period.

In addition, it has been proposed that the government draw up regulations for investment and a law governing companies. We believe that these are necessary, and they are now being drafted.

This is all I wish to say on the question of readjusting relations between the public and private sectors.

III. READJUSTMENT OF TAXATION

After our financial and economic work was unified throughout the country last March, a new situation arose in which national revenue and expenditure were approaching equilibrium. Because in March, April and May the state budget was nearly balanced, showing only a small deficit, and very few additional bank notes were issued, currency and prices were stabilized.

However, we made a number of mistakes in collecting public grain and industrial and commercial tax⁵³ and in issuing government bonds. The people have already expressed their resentment of these mistakes, and we must correct them. For example, when we collected public grain in the countryside, certain geographical areas and certain sections of the population were taxed too much and others too little.

When we collected cash taxes in the cities, there were similar cases of overtaxing and undertaxing, as well as instances of tax evasion and simple failure to collect taxes. Also, there were too many categories of things to be taxed, some overlapping, others not clearly defined. Methods of calculating taxes were not standardized, and many procedures were unduly complicated. It is the higher authorities—that is, the departments in charge of financial and economic affairs—who were mainly responsible for these mistakes, and the tax collectors themselves should not be blamed.

Generally speaking, the tax collectors of the people's government are conscientious workers. They are charged with collecting all the taxes necessary to meet the needs of the state, and this difficult task could never be accomplished without them. They did it simply to fulfil their duties, not to get credit for themselves. But there are some shortcomings and mistakes. Cadres from the old liberated areas who are sent to do this work in the new liberated areas are unfamiliar with the place and the people. They are

inexperienced at first they don't know much about the local situation, and sometimes they are too rigid. Most of our tax collectors used to work for the old regime and were kept on after liberation. Many of them do their work honestly and conscientiously, but some still follow the bad old ways, and a few have become corrupt. That's because we have not educated sufficiently. Once we have educated them and helped them rectify their work style, these tendencies will surely disappear.

The extensive experience we have gained now guarantees that our future work in taxation will be successful. With regard to tax policy, Article 40 of the Common Programme stipulates, "The tax policy of the state shall be based on the principle of ensuring supplies for the revolutionary war and taking into account the rehabilitation and development of production and the requirements of national construction. The tax system shall be simplified and equitable distribution of burden effected." To conform with these stipulations, the people's government should do the following.

A. Regarding agricultural taxes:

1. It should impose taxes only on principal farm products. It should not collect any miscellaneous taxes that hinder the development of agriculture, rural sideline production and livestock breeding.

2. In view of the current economic situation in the countryside, it should reduce agricultural taxes so as to encourage the peasants to produce more. Taxes must be collected in accordance with fixed rates, neither more nor less.

3. Tax rates should be fixed on the basis of normal yields. If, thanks to the hard work of the peasants, the yield is greater than normal, the excess portion should be tax-exempt. This will provide a further incentive to production.

4. It should fix a reasonable point below which no transaction tax⁸² is imposed. Only sales involving relatively large quantities of goods should be taxed, not small transactions between peasants.

B. Regarding industrial and commercial taxes:

1. It should continue the policy of taxing industry more lightly than commerce and everyday necessities more lightly than luxury goods.

2. It should not allow the amount of taxes collected to exceed the prescribed rates.

3. It should simplify the list of taxable items. More than two hundred items are to be eliminated and some two hundred others consolidated. (For example, various kinds of cotton goods will be taxed only once, by means of a uniform tax on cotton yarn. Woollen goods will be taxed in the same way, with a single, uniform tax on wool yarn.) Altogether about five hundred items will be eliminated from the list.

4. In the interest of the vast numbers of consumers, it should reduce the salt tax.

5. It should standardize the methods of valuation and tax assessment, making sure that they are interpreted uniformly everywhere in light of actual conditions.

6. In view of uneven levels of development and of accounting in different places, it should use three different ways to determine the amount of taxes enterprises are to pay according to the specified tax rates: 1) Enterprises that keep orderly accounts and provide receipts for transactions can submit them to the tax collectors, who will audit their accounts and determine the amount of tax due. 2) When enterprises are not up to that standard of accounting, their representatives can meet with the tax collectors and determine through democratic discussion the amount of tax to be paid by each. 3) For small enterprises in cities and small towns for which the first two methods are inappropriate, a fixed amount to be paid at regular intervals can be assessed.

7. It should see to it that in every large city a tax supervisory committee is established, consisting of representatives of the tax bureau, the bureau of industry and commerce and the federation of industry and commerce. This committee should be empowered to examine matters relating to tax amounts and penalties.

C. Regarding tax collectors:

It should strengthen the education of tax collectors to ensure that they have a correct understanding of policies, regulations and procedures and a good work style. They should be taught to follow policy strictly, cooperate with the people and avoid causing popular discontent by becoming bureaucratic or authoritarian. They should be encouraged to prevent tax evasion and to work honestly and devotedly. The government should try to do good work in this area in the coming summer, autumn and winter.

These are my views on the economic situation, the readjustment of industry and commerce, and the readjustment of taxation. I hope you will examine them and see if they are correct.

In the last three months the Ministry of Labour has convened a conference of directors of provincial and municipal labour bureaus, the Central Financial and Economic Commission has held a meeting of directors of the bureaus for industry and commerce in big cities,⁷⁵ and the Ministry of Finance, a conference of directors of big-city tax bureaus. At these conferences questions concerning the relations between labour and capital, the readjustment of industry and commerce, and the readjustment of taxation were discussed in detail.

The meetings were attended by representatives of private industry and commerce. For the most part, the views and conclusions included in my report are those agreed upon at these conferences.

Our state and our people are still beset by difficulties. To fulfil our economic and financial tasks, we urge all military and government personnel, school teachers, workers and other employees to behave responsibly and try to save money wherever possible. We hope that the government and military organizations will make appropriate adjustments in their personnel and that all those who are ordered to move to other regions will take up their new posts readily so as to minimize waste of manpower and financial resources. State-owned enterprises are expected to take careful inventory of stocks in their warehouses, improve management and do all they can to increase state revenue.

At the same time, we hope that industrialists and businessmen throughout the country will not seek to evade their taxes but pay them voluntarily in accordance with the regulations. We ask the trade unions, federations of industry and commerce, trade associations, and all workers and other employees to assist the tax collectors in their task.

Our goal is to rehabilitate and develop the people's economy and, at the same time, to gradually eliminate the state budget deficit. We believe that this goal can be attained and that boundless prospects will open for our country, so long as the government and the people work together.