

PLANS FOR THE ISSUANCE OF GOVERNMENT BONDS AND BANK NOTES

December 16, 1949

I. PLAN FOR THE ISSUANCE OF GOVERNMENT BONDS

A. According to reports from Shanghai, Hankou, Tianjin, Beijing and Taiyuan, the proposed issuance of government bonds has evoked a largely favourable response from the workers, peasants and other working people, as well as from government functionaries. The workers are getting ready to buy them. Generally speaking, the industrialists and businessmen have shown no opposition to the issuance of bonds or reluctance to buy them. The honourable ones feel that the bond issue will help stabilize currency value and commodity prices to some extent, thus facilitating normal business. Most of the industrialists and businessmen, however, have misgivings on two accounts. They are afraid, first, that part of their funds will be tied up in the form of bonds; second, that money will become tight, causing a sharp drop in prices. In addition, a few of them fear that the bonds will never be redeemed, like the ones issued by the Kuomintang government.

B. On December 16 the Government Administration Council⁴⁰ adopted regulations for the issuance of the first instalment of bonds, amounting to 100 million *fen*.⁴¹ The bond certificates are now being printed, and they will be issued on January 5. It is most likely that receipts from sales of bonds will have reached a high figure by next March. Calculated on the basis of current prices, the value of each *fen* will be roughly 12,000 yuan.² In view of the misgivings on the part of the industrialists and businessmen, we have decided to issue an appropriate amount of additional bank notes along with the bonds, in order to relieve the strain on the money supply. Our general aim is to sell government bonds and withdraw

Report to the Central Committee of the Chinese Communist Party, drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.³⁸

money from circulation, but at the same time to avoid a fall in prices and the ensuing difficulties for industrialists and businessmen. On condition that no bond certificates shall be used as a substitute for money on the market, as security for loans from state banks or as speculative capital, we shall not forbid—and it would be impossible to forbid—their legitimate transfer among individual holders or their use as security for loans from private banks. The government bonds will be distributed in the various greater administrative regions¹¹ according to the following percentages: east China, 45 per cent; Central-south China, 30 per cent; north China, 15 per cent; southwest China, 7 per cent; and northwest China, 3 per cent. In the old liberated areas the bonds will be sold only in cities; in the new liberated areas, they will be sold in cities too for the most part, but the landlords and rich peasants in the countryside will also be urged to buy a small number. As far as the method of subscription is concerned, in each city, through the Conference of People's Representatives, appropriate percentages will be assigned to the various trades. Then, in each trade, the specific number of bonds to be purchased by each individual will be determined by democratic assessment. Persuasion should be used rather than compulsion. Special methods are being worked out for the workers and government employees. It would be best if they could pay in full for all the bonds at the time of purchase; however, if that is impossible, they should be allowed to subscribe to the bonds and begin to pay for them later in monthly instalments to be deducted from their wages.

C. We should monitor the changes in the money supply and make use of the following three means of monetary control. First, the amount of gold and U.S. dollars to be bought by the banks should be determined in light of the money supply. To pay for the bonds they undertake to buy, certain subscribers must exchange for RMB, at state banks, a sum of gold and U.S. dollars amounting to 30 per cent of the value of the bonds to be purchased. Second, greater effort should be made to collect bond payments at times when there is a relaxation in the money supply, and we can ease up a little in collecting them in times of monetary strain. Third, when money is tight, the Ministry of Trade³⁴ can purchase more of the essential commodities (cotton, cotton yarn, cotton cloth and grain), and less when money is easy. These purchases, however, should mainly take the form of spot transactions or purchase orders. In addition, in certain cases, fixed-term parity loans¹⁶ may be used.

II. PLAN FOR THE ISSUANCE OF BANK NOTES

By the end of November, bank notes totalling ¥1,890 billion had been issued (the figure will reach ¥2,670 billion by the end of December). Projected expenditure for this month and for the first two months of next year amounts to more than ¥3,140 billion, as against a projected revenue of a little more than ¥640 billion. This means a deficit of ¥2,500 billion, all of which must and can be made up by issuing bank notes. The reasons are as follows.

A. In the next three months three factors will combine to produce an enormous deficit. First, to make sure that public grain¹⁸ and taxes collected by the lower-level units are delivered to the greater administrative regions, it is necessary to make sure that those units have enough supplies to meet their own needs. Only then can we give them strict orders to make the deliveries, and only then can we prevent the public grain and taxes from being used by governments at and below the provincial level. That is one reason why expenditure will exceed revenue in the next two months. In the revolutionary base areas financial work has been centralized in this way for the last decade. Second, most of the funds needed to make summer uniforms for the military and government personnel and to invest in agriculture, forestry, water conservation and transport will have to be allocated in advance during these three months. Third, it would not be appropriate to sell the public grain now, for this is the season when most peasants sell their own grain. If the government competes with them, the peasants will suffer because of the lowered price, and the public grain will also have to be sold cheap—a loss to both sides. But without sales of public grain, there will be reduced government revenue and hence a larger deficit.

B. By the end of next February we shall have issued bank notes totalling ¥4,400 billion. In March receipts from the sale of bonds will reach ¥1,200 billion. If we deduct the 30 per cent to be paid in gold and U.S. dollars by the subscribers, actual receipts in RMB will be ¥840 billion, or 19 per cent of the total note issue of ¥4,400 billion. This is a significant percentage of currency to be withdrawn and may possibly lead to a tight money supply. (Only 12 per cent of the currency was withdrawn from circulation in northeast China in May and June this year when bond payments were collected.) If we reduce the amount of bank notes issued, however, it will be difficult to sell the government bonds, so we have to proceed according to the plan just described.

C. The deficit for next year, which will be the equivalent of nearly 3.5 billion kg. of millet, as listed in the Budget Estimates,⁴² has to be made up

by the issuance of new bank notes every month.⁴³ Suppose the deficit for the first half of next year is 1.75 billion kg. of millet. Assuming the price of millet remains at its present level of ¥1,400 per kg., we would have to issue bank notes to the amount of ¥2,450 billion. When that is added to the ¥2,670 billion which will have been reached by the end of this month, total currency issue will exceed ¥5,100 billion, and taking ¥2,670 billion as the base figure, that represents an increase of nearly 100 per cent. This means that commodity prices may rise by the same percentage, so that millet will be selling at ¥2,800 per kg. Now suppose the deficit for the second half of next year is also 1.75 billion kg. of millet. Assuming a new price of ¥2,800 per kg., we shall have to issue bank notes to the amount of ¥4,900 billion. By the end of December 1950 the aggregate figure will have reached ¥10,000 billion. Again taking ¥2,670 billion as the base, that will mean a 300 per cent increase next year and, consequently, a rise of the same magnitude in commodity prices. The extent of the price rise may be reduced owing to such factors as the expansion of our territory and the slowing down of currency circulation. But even so, it will be hard to prevent expenditure from exceeding revenue and revenue from falling. And other factors, such as a grain shortage, may also drive prices up. Therefore, we anticipate that the price increase next year may be as much as 300 per cent, and everything possible must be done to minimize it.

In view of this expected increase, we should bend our efforts towards making it gradual and avoiding any sudden jump in prices. We can anticipate three critical moments when money will be tight: the New Year's holiday, Spring Festival [Lunar New Year, falling that year on February 17] and the time when currency is withdrawn owing to the sale of government bonds. Unless we take appropriate preventive measures, we may find that prices rise only slightly, or not at all, during the first half of next year and then shoot up by 200 to 300 per cent during the second half. We should therefore take measures to ensure that prices rise by a certain percentage during the first half of the year so as to avoid a steep rise during the second half. We should try to bring about a price increase of about 10 per cent a month, beginning next January, so that by the end of the year the total increase will be about 210 per cent. To this end, in addition to bank notes issued according to the financial plan, we shall set aside ¥500 billion as a reserve fund to be used to purchase cotton, cotton yarn, cotton cloth and grain in times when money is tight and prices are levelling off. The Central Financial and Economic Commission⁷ has already extended a loan of ¥50 billion to the authorities of east China to enable them to place orders with the capitalists.

To sum up, there are three advantages to issuing more bank notes in the

first half of next year: first, it will ease the money situation, thereby facilitating the sale of government bonds; second, it will induce a gradual, month-by-month increase in commodity prices, thus avoiding a sharp increase in the second half of the year; and third, it will make it possible for us to purchase major commodities in times when prices are levelling off, thus enabling us not only to buy cheap and sell dear, but also to aid the industrial and commercial enterprises.