

# THE PRESENT FINANCIAL AND ECONOMIC SITUATION AND RELATIONS BETWEEN DIFFERENT ASPECTS OF THE ECONOMY OF NEW CHINA

*December 22-23, 1949*

Comrades,

Now that the Central People's Government has been founded, various ministries and commissions have been holding separate national conferences, as necessary, to learn about the actual situation and to formulate principles and plans for their work in the coming period. Though general principles have already been set forth in the Common Programme,<sup>1</sup> operational meetings are needed to determine specific principles for each field and to have them implemented at lower levels. Since the various ministries and commissions were formed only recently, they have not had time to grasp the overall situation, so they need meetings and on-the-spot investigations to collect information as well.

Having come to Beijing to attend meetings, in addition to discussing the work in your own field, you also have the right to inquire about the country's overall policies and general principles in the political, military, economic, cultural and other fields. That is the only way you will be able to keep the work of your department in conformity with the general principles and to keep an overall picture in mind. Otherwise, you will lose your direction and be working in isolation in the dark. That is not a scientific approach, and it won't help to build a new country. The purpose of my talk today is to help you acquire the habit of considering the overall situation. I am going to discuss issues of a general nature. It is my opinion that you have

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<sup>1</sup>Speech to participants in the national conferences on agriculture, iron and steel production and civil aviation.

not only the right to make a request of the Central Government but also the right to ask the leading comrades in your localities to give such a talk on overall policies and principles at regular intervals. Some people say that those are state affairs that ought to be kept secret and not revealed to anyone who asks. Some state affairs do indeed require secrecy, but there are also some that do not, and even secret matters should be handled selectively. I think major state affairs should be made known, and we should encourage everyone to learn about them. Others say that since everyone has a heavy work load, it is enough for him to fulfil his assignments without taking time to learn about state affairs. That is the attitude of a clerk conducting business in the old society. In New China administrative staff should have a sense of responsibility towards their own country. If they do, thousands upon thousands of enthusiastic and creative staff members will come to the fore.

Elaborating on what I have said just now, I am going to touch on two issues. First, I want to talk about the state financial and economic plans, which will give you a picture of the overall situation. We have begun to shift our work as a whole from military operations to construction, and our financial and economic plans are the embodiment of some of the policies adopted by the government in this new situation. For instance, it can be seen from these overall plans which activity is to be considered the most important — military operations or construction — and, within construction, which sector is to be given major emphasis — industry or agriculture. Cultural, educational, diplomatic and other government policies are also reflected in these plans. Second, I want to talk about the relations between different aspects of the economy of New China. The key to success in our work is to handle these relations correctly and to be clear about our priorities.

## ON THE STATE FINANCIAL AND ECONOMIC PLANS

The state budget for 1950, approved by the Central People's Government Council, will be effective for only one year. Why? Because the war is still going on. The area around Chengdu, Tibet, Taiwan, Hainan Island and a few other places have not yet been liberated. Under these circumstances, it is not possible to lay out a

plan good for several years. Even this one-year plan can be only rough and approximate; to be accurate it will have to be revised continuously in the process of implementation. It is not realistic to try to formulate an accurate plan all at once. We can only draw up a rough plan like this one, which is scientific and feasible given the present stage in China. Naturally, your own operational plans at this stage must likewise be provisional.

What was the thinking behind the state financial and economic plans, and for what purposes were they drawn up? I shall explain with four points.

1. *Sharing the burden.* In order to achieve nationwide victory, our people are called upon to bear a necessary burden. I call it the burden of victory. Basically, we have been victorious in the War of Liberation, and only the area around Chengdu, Tibet, Taiwan, Hainan Island and a few other places are yet to be liberated. But our victory will be complete only when these areas are liberated. We therefore have to make military preparations and maintain not only the army but also the navy and air force. So military expenditure still takes up quite a large proportion of the budget. Moreover, the armed forces, now numbering 4,700,000 men, will expand, because they will absorb captured or reorganized Kuomintang troops. It is estimated that at its peak next year our army will reach 5,500,000 men. As you know, since last year, and especially during this year, we have incorporated most of the captured or reorganized Kuomintang troops. After Beijing was liberated we sent several hundred Kuomintang officers back to their hometowns. However, when Suiyuan was liberated,<sup>2</sup> our troops came upon those same officers again. Now we no longer have any place to send Kuomintang officers and men. If we turn them away, public order will be disturbed. So we have to provide for them, both the military and civil staff. Furthermore, some time ago in Shanghai, in an effort to streamline administration, the staff was reduced. This caused much anxiety both in Shanghai and in Nanjing, and the matter came to the attention of the Central Government. It is important to provide food for all. To remedy the situation, five persons are now sharing the food for three, so that everybody is provided for. But as a result, the national total of personnel in government and education will increase from the present 2 million to 3.5 million. Together, the additional civil and military personnel will come to 9 million.

Such a big increase in the number of persons dependent on the government will have to be supported by our people. This is a major

problem. However, feeding these 9 million people will be conducive to production and to national development. We should explain to our people that this is a burden we must bear for the sake of victory and that it cannot be avoided. The several million people we have provided for will play some useful role. We should be determined to turn them into a productive force. We are quite certain that this can be done, because it was once tried successfully during the War of Resistance Against Japan. We are now beginning to do it nationwide. Comrade Mao Zedong has expressed his opinion on military personnel engaging in production: they should start with agriculture and handicrafts and also produce industrial goods and armaments. We believe that in two or three years' time this practice will prove highly successful. It is not necessary to have 3.5 million government employees now. We should make preparations for them to take part in production and study, in addition to doing their regular jobs, so that they will become the revolutionary-minded office workers required by New China — meeting work requirements and also equipped with a correct attitude towards labour and with scientific knowledge. Governments at various levels should all do this work well. At present our government organs are overstaffed. Not all employees have to stay on in government offices; some of them can be transferred to enterprises.

2. *Restoring production.* The state will have a heavy burden next year, and we have no choice but to devote great efforts to production. Comrade Mao Zedong has said that production should increase as the army advances. What else but production can we rely on now to support the war effort and consolidate our victory? Production is the basic task of New China. The emphasis at present must be on recovery rather than expansion, though we certainly do not exclude any expansion that is possible and necessary. The highest total annual yield of grain before the War of Resistance Against Japan was 140 million tons. This year's harvest is down from that by about 20 per cent. Although we plan to increase the yield by 5 million tons next year, the total will still be far less than 140 million. The situation with regard to cotton production is similar. In general, what we should do is first put things back to normal in every field of endeavour, and then achieve expansion based on that recovery. Comrade Mao Zedong has said that recovery would take from three to five years and that expansion would ensue in eight to ten years. It will be remarkable enough if in three to five years we can just reach or top the pre-war

production figures. The recovery of agriculture will serve as the foundation for the recovery of all other branches, since if no food is available, everything else is out of the question. Light industry and exports depend for the most part on agriculture for raw materials and goods. With the exception of military and administrative expenditures, most of the funds in the state plan are allocated for the recovery of production. Only when production is resumed can the enterprises take in several million additional people transferred from elsewhere.

3. *Broadening sources of income and reducing expenditures.* This may sound like a platitude, but it is still a necessary measure. More funds will be available and deficits will be reduced only when revenues increase. The state will rely mainly on the people for new sources of revenue. First, the countryside will share the burden; second, the cities will make a contribution; third, state enterprises will hand over their income; and fourth, we shall draw in advance — that is, borrow money.

I want to elaborate first on the share of the burden to be borne by the countryside. Our old liberated areas have been shouldering a heavy burden for a long time; they haven't had a breathing spell in all the 12 years since the beginning of the War of Resistance Against Japan. Now that nationwide victory is just around the corner, is it possible to lighten their load? It is a reasonable suggestion, but for the time being we can't do it. This is because the war is still going on, things in the newly liberated areas are not yet well organized, agrarian reform has not been carried out, and preparations for collecting taxes have not been completed. So the old liberated areas will still have to carry the largest share of the burden, and the amount cannot be reduced. The burden on the peasants in the Northeast will be the heaviest, it will be light in the Northwest and moderate in north China. Those are the proportions we have worked out on the basis of our experience since the anti-Japanese war. On an average, each peasant harvests about 200 kg. of grain every year, of which 40 kg. are turned over to the government. If the expenses of the military are calculated in terms of grain, they come to 2,000 kg. per capita per year. That means that every 100 peasants can support two government employees. If this ratio is maintained, things will be just right; if it is broken, things will be difficult. For the last 12 years we have held out by keeping this ratio. As their share of the burden, the peasants will still have to contribute about 20 per cent of their income for a

considerable time to come. That fact also shows the great contribution of the Chinese peasantry.

The contribution of the cities takes the form of tax payments. In the past we depended almost completely on the countryside. Now that the situation has changed, we can also rely on the cities and let industry and commerce do their share. But in the initial period we cannot lay too heavy a burden on the cities; it should be lighter than that on the countryside. Now 41.4 per cent of the state's financial revenue comes from the countryside and 38.9 per cent from the cities. In actual practice, many taxes such as those on salt, commodities, slaughtering animals, etc., will still go to the peasants in the end. While it is wrong to ask too much of the cities at present, government employees in the cities should persuade industrialists and merchants to pay taxes.

The income of state enterprises accounts for 17.1 per cent of financial revenue.

The three sources of revenue I have mentioned are not sufficient and there will still be deficits. So we shall have to issue government bonds. Eighty-two per cent of the total budget for 1950 will be drawn from various sources of income, 7 per cent from the sale of government bonds, the rest from the issuance of currency. The funds raised this way will tide us over the difficulties next year following our victory. Can we borrow money from foreign countries? We do need foreign assistance. We welcome aid from friendly countries, for it is offered with sincere goodwill, but we should rely mainly on ourselves to build China.

In the state financial plan expenditures have been retrenched.

First, the military takes up 38.8 per cent of the total budget. The annual expenses of the army add up to only 2,000 kg. of grain per capita, or 10.5 million tons in all. The expenses for building the navy and the air force are not included.

Second, administration takes up 21.4 per cent. Our administrative expenditure is modest. The average annual income in terms of grain for people under the supply system is from 900 to 1,000 kg. per capita. For those under the salary system, the amount is 2,100 kg. per capita. We cannot apply the salary system to all those now under the supply system, nor can we introduce the supply system among people now under the salary system. Incomes under the two systems are not equal. Nevertheless, we have to ask those comrades who are under the supply system to be more patient. The government is aware of

their domestic difficulties and is trying to solve some of their most pressing problems.

Third, economic development, education and culture take up about 30 per cent of the budget. Funds allocated under these categories will go for investment in state enterprises, for cultural and educational facilities and for construction in the localities. Investment in state enterprises will constitute 23.9 per cent of this total.

Fourth, the general reserve fund takes up about 10 per cent of the budget and will be used for covering unforeseen expenses, such as relief to disaster areas.

The breakdown of the budget shows that the major expenditures are to support the war effort that will liberate the whole of China. After that come the expenses for construction and the recovery of production. Total expenditures add up to less than the equivalent of 30 million tons of grain, a figure that reflects frugality on the part of the state and a low standard of living. Historically, the Chinese nation has always been valiant and industrious, and our Party has the revolutionary tradition of hard work. In the initial stage of building New China, we hope all our administrative workers will maintain that tradition and carry it forward.

4. *Following policies.* We must all implement government policies and conduct our work according to the general guidelines I have mentioned, so as to prevent departments from asserting their "independence". We should attach special importance to heavy industry, although other types must not be neglected. Within heavy industry, the iron and steel industry should be given priority, although we must not neglect the others either. In agriculture, equal importance should be given to water conservancy and agricultural production, with the former supporting the latter. In transport, the most important thing is to restore railway service. Actually, we have made rapid progress in that respect. We originally planned to reopen 18,000 kilometres of railway lines this year; now the plan has been overfulfilled by 2,000 kilometres. It is anticipated that all railway lines will resume service next year and that some new ones will also be built. The restoration of road and water transport will come next.

Every unit should keep the overall situation in mind, find its own position and orientation under the general financial and economic plans, and restore and expand production, establishing clear priorities and proceeding in accordance with a plan. In this way it can avoid

departmentalism and exclusive reliance on the state and will make the greatest possible contributions in its field.

## ON RELATIONS BETWEEN DIFFERENT ASPECTS OF THE ECONOMY

Now I want to discuss six relationships between different aspects of the economy. These are: the relations between the cities and the countryside, between self-reliance and foreign aid, between industry and commerce, between the public sector and the private sector, between labour and capital, and between upper and lower levels.

### 1. *The relation between the cities and the countryside*

The relation between the cities and the countryside is of vital importance in China. On the one hand, the Chinese revolution calls for the leadership of the working class; on the other hand, in order for the revolution to succeed, it must rely on the peasantry and the vast countryside. To liberate the cities, we must depend on the countryside, establishing revolutionary base areas there, organizing and accumulating our forces, carrying out armed struggles, encircling the cities and seizing enemy positions one by one. The cities in turn provide leadership for the countryside in restoring and developing production and in building the country. This dialectical handling of the relation between the cities and the countryside in our country is the most successful example of Comrade Mao Zedong's application of Marxism-Leninism to the problems of the Chinese revolution.

On the question of who is to exercise leadership, we have now established the principle that the cities exercise leadership over the countryside and industry over agriculture. This is true in capitalist society and even more so in socialist society. Although the countryside contributes a far greater proportion of China's national economy than the cities — agriculture and handicrafts make up about 90 per cent while modern industry accounts for only about 10 per cent — that in no way diminishes the leadership role of the cities and of industry, far less deprives them of that role. The cities' demand for food and industrial raw materials spurs agricultural production in the countryside, and at the same time the consumer goods and means of production they supply serve to advance it.



Since it is the cities, where the population is concentrated, that lead the countryside, where the population is scattered, and since it is industry that leads agriculture, does it follow that we need not rely on agriculture — the foundation of our economy — and can ignore the countryside? No. The broad foundation of agriculture can never be dispensed with or ignored. City and countryside are two aspects of a dialectical whole; so are industry and agriculture. Neither aspect can replace the other or be stressed at the expense of the other. When we speak of the leadership of the cities and of industry, we are by no means forgetting the role of agricultural production in promoting industrial growth. The growth of industry is impossible without the growth of agriculture. The primary task at present is to restore agricultural production to its pre-war level and then to expand it. We plan to increase grain yield by 5 million tons next year. We should be able to attain an annual yield of 140 million tons — the highest pre-war output — in from three to five years. Thus the purchasing power of the 400 million peasants will be increased, and their demand for industrial goods will grow. The amount of industrial raw materials they supply will also be augmented. Expansion of agriculture will then serve to restore and develop industrial production. The cotton output this year is over 400,000 tons, and the plan for next year is to increase it to 650,000 tons. If we fail to reach that amount, one million spindles will stop spinning. The urban population cannot go on living without food. The 10 million people in Beijing, Tianjin and Shanghai all depend on the countryside for their food and clothing. The cities cannot manage without the countryside. Industry cannot operate without agriculture but must be based on agriculture.

In handling the relation between the cities and the countryside we have to guard against two deviations. Cadres from the old liberated areas have accumulated rich experience in rural production and are skilled at organizing agricultural production. But that is no reason for them to focus on agriculture to the neglect of industry, negating or underestimating the leading role of the cities and of industry. If this deviation is not prevented, mistakes will be made. Agriculture cannot be the focus of work and will grow only under the leadership of industry. Only when urban industries are organized to play a leading role can agriculture be modernized and mechanized. The Second Plenary Session of the Seventh Central Committee<sup>3</sup> decided to shift the focus of the Party's work to the cities, and we should now devote

most of our energy to rehabilitating and developing industry, which in turn will promote the recovery and development of agriculture. But at the same time, there is another deviation to be avoided. Comrades working in the cities should not overlook agriculture and the countryside just because it is industry that leads agriculture and cities that lead the countryside. In China, peasants make up more than 80 per cent of the total population, and as I have said, agriculture and handicrafts represent almost 90 per cent of the national economy. So in planning industrial production we have to take into account the needs of the countryside. For instance, when a new railway is to be built, primary consideration should be given to its potential role in communication between the cities and the countryside and in the exchange of industrial and agricultural products. Anyone who neglects the interests of the peasants and agriculture will make mistakes.

We must develop industry on the basis of expanded agriculture and raise the level of agricultural production under the leadership of industry. Without agriculture as the foundation, industry cannot advance; without the leadership of industry, agriculture cannot expand. This correct dialectical principle is the outcome of applying Mao Zedong Thought to the relations between industry and agriculture and between the cities and the countryside.

## *2. The relation between self-reliance and foreign aid*

In building our country, which should we chiefly depend on: domestic capabilities or foreign aid? Our answer is domestic capabilities — in other words, we must chiefly rely on ourselves. Small countries have to do that, and it is even more necessary for China, a big country with 450 million people. There is no question that we need to be self-reliant economically and independent politically. The blockade imposed on us by U.S. imperialism has caused great hardships, but we should never yield to it for that reason. We have to withstand these hardships. Moreover, the blockade and bombing in themselves have forced us to devise more methods of building up our country. In 109 years of struggle, countless people with lofty ideals have sacrificed their lives, and the Chinese people have suffered many a setback and failure before the final victory. We are quite capable of dealing with the present situation. We shall grapple with the difficulties, for as the saying goes, much distress can regenerate a nation.

There is nothing to fear if the imperialists refuse to do business with us. Their past invasions turned China into a colonial and semi-

colonial country. The Chinese people rose up to make revolution because that was the only way they could survive. We certainly cannot rely on the imperialists now. And after all, the business China did with them in the past was never very extensive: before the anti-Japanese war it amounted to only a few hundred million yuan of the national currency a year and during the war to not more than a few score million. It is all right for us to do business with imperialist countries now if the terms are favourable. We shall neither refuse it nor ask for it. The habit of relying on imperialism, a habit formed over the last hundred years and deep-rooted among some people, has to be broken. Old China was dependent on imperialism not only in the economic sphere but also in the spheres of culture and education; it was exploited economically and polluted ideologically. That was very dangerous. It is now time to expose and eradicate the evil influence of imperialism. We shall neither rely on imperialism nor be afraid of it. Thus we shall be able to base self-reliance on solid ground. Most of the materials we need can be supplied by ourselves, some by our friends. We should never count on enemies. Furthermore, we can surely find favourable markets for our goods. Next year grain output will be increased by 5 million tons and cotton output by more than 200,000 tons. Increased grain production can serve to increase our exports, earning foreign currency, and increased cotton production can help reduce our imports, saving foreign currency. We welcome any assistance from friendly countries based on equality and mutual benefit. Assistance offered with goodwill helps us to be self-reliant.

### 3. *The relation between industry and commerce*

Industry certainly takes precedence over commerce. But what about those cities with a high proportion of commerce? Shouldn't they give first place to commerce? No, they too should give priority to industrial development. The state mainly manages heavy industry. State commerce and commerce run by co-operatives are designed to facilitate the circulation of industrial and agricultural goods in the service of the people. We must guard against speculation. As to private capital, we should encourage it to develop industrial production and help it to do so. In case of urgent necessity, the state can also come to the assistance of private commerce. On the eve of liberation almost all urban production was disrupted, and all that remained was commercial speculation. This situation must be remedied.

#### 4. *The relation between the public sector and the private sector*

In order to restore and develop the economy, new-democratic China needs the assistance and co-operation of private capital. In addition to state enterprises, private enterprises will be allowed to exist and grow. The principle proposed by Comrade Mao Zedong of giving consideration to both the public sector and the private sector has been incorporated in the Common Programme. In our transition to a socialist society, we shall have to solve the problem of private capital.

It must be made clear that the public sector is to be given priority. The state economy should be the leading sector. Although it now accounts for only 5 per cent of the national economy, it is socialist in nature and its leading position guarantees that China will develop towards socialism. All enterprises that have an important effect on the national economy and people's standard of living and thus should not be controlled by private capital should be placed under state operation. The Kuomintang government once monopolized the national economy by making use of bureaucrat capital, which not only enslaved the people but also stifled the development of the private economy and should therefore be confiscated. On the other hand, the monopoly of bureaucrat capital has resulted in an increasing concentration of large enterprises and has thus prepared centralized organizations of production ready-made for the state. In this way certain institutions of the old society turned into positive forces as soon as the people took control of them. To increase the proportion of the state-owned sector of the economy and to assure its leadership, the government has allocated to it 23.9 per cent of the budget for 1950.

If the public sector is to take priority, does it mean that the private sector is to be ignored? Certainly not. Now half of all industry is privately run. This is very helpful to our country's economic development. The government will help resolve the difficulties of those private enterprises that contribute to the economy and to the people's welfare. State-owned enterprises should play the leadership role so that private enterprises will benefit the growth of production. We endorse the existence of private capitalist enterprises. However, our aim is to guide them away from the old capitalist road and onto the road of New Democracy. We intend to move towards socialism gradually, carefully and methodically over a long period of time.

#### 5. *The relation between labour and capital*

The question of this relation does not arise in state enterprises, but it does in private enterprises. Comrade Mao Zedong has

formulated the principle of benefiting both labour and capital. However, this does not mean we should put labour and capital on a par. The People's Republic is led by the working class. So we should adopt the policy of protecting labour while allowing capitalist management an appropriate profit. Our policy of placing restraints on private capital serves both to encourage the operation of those private enterprises that contribute to the economy and the people's welfare and to discourage those that do the opposite. To be allowed to make profits, private capital has to meet two conditions: (1) the profits must be legal, and (2) they must not be excessive. Workers should not make excessive wage demands just for their immediate benefit: that would make it impossible for management to run the enterprise. As a result, the enterprise would shut down and the workers would lose their jobs. We should not sacrifice the long-term interest to the momentary interest. It is reasonable that workers should work eight hours a day. However, in many cases they still have to work as much as ten hours a day. Workers' living standards should correspond to the present conditions prevailing in China. The major problem right now is to eliminate unemployment and hunger. Working conditions cannot be greatly improved overnight; that will have to be done gradually. It is essential for the workers to devote themselves to production in a spirit of self-sacrifice. We must first develop production before we can protect labour and restrict capital.

#### 6. *The relation between upper and lower levels*

When I say upper and lower levels I am referring to central and local authorities. Though under the present circumstances we have not yet been able to achieve total centralism and uniformity, we do not allow each to go its own way. We practise democratic centralism, not feudal separatism. As provided by the Common Programme, the relation between the central and local authorities should both ensure national unity and meet the needs of the localities. For instance, in iron and steel production, unified arrangements should be made for all steel-making areas with respect to industrial investment, iron-ore mining, sale of products, etc. In plans for cotton production however, local conditions should be taken into consideration. When we make plans for water transport, we should pay attention to the various sectors concerned, avoiding departmentalism and making sure that we don't discourage the initiative of local authorities. During the revolutionary war Comrade Mao Zedong held a tight grip on leadership in matters of strategy, but he left the organization of battles

and the choice of tactics in the hands of subordinates, for they were best informed about actual conditions. Battles can be won only by bringing into full play the initiative and creativity of officers and men. What has been proved true for warfare will also be true for construction. There is no limit to people's creative abilities. Only by giving full scope to the initiative of the local authorities, under the unified leadership of the central authorities, can we invigorate our work in all fields; otherwise it will stagnate. And only by bringing into full play the initiative and creativity of production workers can we raise the standards of their material and cultural life and overcome bureaucratism.

All departments, the ones that deal with production in particular, will come across the six relationships I have been talking about and will have to handle them correctly. That is the only way they can avoid departmentalism, keep the overall situation always in mind, co-ordinate their production with the unified state plans, establish priorities in their own fields of work, and correctly implement their plans.