

CURRENT FINANCIAL AND ECONOMIC PROBLEMS REQUIRING OUR ATTENTION

August 15, 1949

This has been a long conference—it has lasted twenty days. Now allow me to review the problems we have been discussing both during the conference and before it began, especially the ones demanding the attention of our comrades engaged in financial and economic work.

1. *Issuance of government bonds.* What should we do if issuing government bonds causes a strain on the money supply, adversely affecting the recovery and expansion of industry and commerce? The central authorities have considered this question repeatedly. I think we have the following three means at our disposal:

a) We can regulate the money supply. That is, we can put more bank notes into circulation when we issue government bonds and withdraw the money when circumstances demand. We should learn to make effective use of this means by studying the exact amount of bank notes that should be issued or withdrawn at any given time. We should also study the price parities between industrial and agricultural products and make them more rational. For instance, we can use more bank notes to purchase commodities on the market and, at the same time, readjust the price parities.

b) We can regulate the amount of government bonds issued. We should be flexible about this, determining the amount to be issued every month in the light of actual conditions. Both the term of the bonds and the exact amount issued may vary. For instance, now that the new grain crop is entering the market and more bank notes are being diverted to the countryside, money will be tight.²¹ So we have to determine carefully the amount of government bonds to be issued in the cities and in the countryside.

c) We can regulate the amount of gold and U.S. dollars purchased by the state. The exact amount should be determined in the light of concrete conditions. This, too, is a means at our disposal. We can purchase more when

Speech summing up a conference on financial and economic work held in Shanghai.

prices are stable and money is tight.

We should learn to use these three means skilfully, so as to create and maintain a favourable monetary and price situation and secure constant supplies of grain and other important commodities.

2. *Production of the cotton mills.* There is the question of whether the Shanghai cotton mills should be moved elsewhere. Wherever they are moved, there will have to be factory buildings, electric power and auxiliary industries. If we relocate the mills, the present workers will lose their jobs, and it will take at least six months for production to resume in the new place. We have therefore decided not to move the cotton mills. We should do all we can to maintain production. That will be difficult but not impossible. Here is what we can do: reduce the number of spindles first by 15 per cent (which is normal), and then by another 20 per cent, that is, have the mills operate five days and five nights a week. At this point, it's hard to tell how long we can carry on like that. The situation will become clear when the new cotton crop has been picked. What should we do if there is no market for the cotton yarn and cloth? Two things: first, we can sell them at a loss by exporting them in exchange for what we need; second, we can issue more bank notes and store the cotton yarn and cloth in case of a blockade by the U.S. imperialists. We should not consider stopping production unless neither of these measures is successful. Of course, we ought to seek other alternatives before opting for this last resort. For the present, however, let's concentrate on planning our work according to the principles I have outlined.

3. *Purchase of local specialties and use of funds.* First of all, we must ask comrades on the financial and economic commissions and in trading companies in the various localities not to be too rigid in their use of funds. They should make necessary purchases and sales without delay. As long as goods are on hand, they should be sold. In the past, most comrades have been reluctant to dispose of purchased commodities because of years of price instability. Now we should consider what and when to sell so as to achieve the best results. If a shortage of goods on the market causes a price increase and thus more bank notes have to be issued, this may be beneficial to local interests but harmful to the interests of the country as a whole. We should be prepared to sell goods to maintain price stability, which is a very important overall factor.

A company should be established under the direct leadership of the Central Financial and Economic Commission (CFEC)⁷ to provide unified management of raw cotton and cotton yarn and cloth. It would be best if cotton mills in east China were to barter their yarn and cloth for cotton. Comrades from this region say that in the absence of central, unified

management they might not be able to obtain cotton with their yarn and cloth or even with bank notes, and that some mills might hoard their yarn and cloth instead of selling them. They are asking that the central authorities place all of the cotton yarn and cloth under unified management, and that they provide cotton to mills. This would require the establishment of a cotton and cotton yarn and cloth company directly under the CFEC. Such a company would also ensure the smooth withdrawal of bank notes from circulation.

The export of tung oil, silk, tea and other major local specialties should also be controlled by the CFEC. To ensure this centralized control, a local specialties company should be established. Without such a body, we would have to raise funds for two separate purposes—purchasing the products and organizing exports—which would tie up too much money. Also, unless we centralize the export of local specialties, it will be hard to centralize the use of foreign exchange for buying the foreign goods we need. All departments need foreign exchange, each having its own list of goods to be imported. If we establish a company for the export of local specialties, we shall be able to use our foreign exchange effectively in a centralized way, to the benefit of the country as a whole.

4. *Facilitating free flow of funds and establishing a central authority to issue currency.* Northwest China, while it is poor and thinly populated, nevertheless supports a large number of troops. It has therefore issued a great many bank notes. Without outside help, the region will be unable to shoulder the heavy financial and material burden, and the local people and army units stationed there will complain. Northwest China should be prepared to bear 90 per cent of the burden itself, but east, central and north China should lend a helping hand. Until we have nationwide monetary unification, this outside help can take the form of facilitating the transmittal of funds between regions and allowing merchants to transport commodities from other places to northwest China. Applying to the southern front as well as to northwest China, these are ways in which richer areas can aid poorer ones and the rear can assist the front.¹ When there is a free flow of funds, more currency will be issued, and we should set up a central department to deal with the problem. To encourage free flow, we must put an end to the 12-year-old practice of every area's issuing its own bank notes at will, and separate the work of the central currency department from that of the banks.²² Considering the financial conditions in the new liberated areas, however, we can give them a degree of leeway in the matter of currency issuance, allowing them to act first and report afterwards.

5. *Unified management of taxable items, tax rates and the export of salt.*

The list of taxable items and the tax rates we have just drawn up may not be entirely rational, but they are better than nothing. We can try them out for a couple of months and then revise them in the light of experience. We should not abandon the attempt to unify taxes just because the present system is imperfect. We can begin to unify them and improve the system as we go along. Although exceptions may be allowed in certain localities, major taxes should be uniform everywhere.

As for the bulk export of salt, trade transactions involving 50,000 tons or more should be handled exclusively by the CFEC, because they have to do with foreign policy. Li Zhuchen has said that it would be to our advantage to export processed salt.²³ Of course that would be better, if processed salt is available. If not, we can export crude salt, so long as the price is fair. Prices for export salt should be standardized by the CFEC. The ports to be used, the kinds of salt to be exported, and the prices will be determined according to circumstances, because they will depend on the quality of the product and the distance the salt has to be transported. We must see to it that we leave no loopholes for merchants to exploit.

6. *Freedom of domestic trade.* I understand from comrades in east China that the authorities in Changzhou have forbidden local grain to be shipped to Shanghai and that the ones in northeastern Jiangxi Province have imposed a similar blockade on Hangzhou. Many of the people who support these restrictions are even Party members, who think they are acting “for the good of the country and the people”. They argue that if grain is shipped out, the local peasants will starve. But that argument doesn’t hold water. No peasant on earth would be so stupid as to sell all his grain and let himself starve to death. The peasant is no fool. He knows that bank notes may depreciate, so he won’t sell his grain unless he is in urgent need of money. These people also maintain that transporting local grain to other places will cause the local price to rise and jeopardize the national economy and the people’s wellbeing. In fact, in places where free trade in grain is banned, the peasants will be unable to sell their grain at a higher price. On the other hand, in the cities a higher grain price will mean higher costs of industrial production and, consequently, an increase in the price of industrial products. The net result will be a widening of the price gap between industrial and agricultural products. Would all this be beneficial or harmful to the peasants? Absolutely harmful. Would it be beneficial or harmful to the big cities? Harmful, of course, because the several million wage earners would no longer be assured of grain supplies. Clearly, blockades are harmful to the peasants, to the urban labourers, and to national economic development. They are beneficial only to residents of the small and medium-sized cities in the areas from which it

is forbidden to export grain—beneficial in the sense that the residents can buy cheaper grain. Compared to the peasant masses, urban workers and other employees, these people are obviously a minority. To whom should we give priority, the great majority of the people or a mere minority? To the majority, of course. As for the argument that prohibiting the export of grain outside the producing area would benefit the country as a whole, that is not true: it would cause the price of grain to rise sharply and make it impossible to sustain urban industrial production. The Party and government will issue directives to help solve this problem. Newspapers and periodicals, too, should carry articles explaining the situation.

7. *The question of retaining former Kuomintang personnel.* It is true that if we retain all the personnel of the former regime, they will be too heavy a financial burden. But we shall create even bigger problems if we dismiss them, leaving them unemployed with no means of support. Although feeding them may mean a financial loss for us, it will have a favourable political impact. When people in the areas awaiting liberation see that the former Kuomintang personnel are provided with a living, it will reduce their anxiety for themselves and they will offer us less resistance. As a result, the war will end much sooner, which will save tremendous human and financial resources, greatly diminishing our total expenditure. Even if we have to reduce the present personnel, we can't get rid of them all. Indeed, we have to retain most of them. When this question came up in east China, the authorities there had the ones who did have to be dismissed assembled for political education, explaining to them why they were being let go, telling them about our financial difficulties and asking them to talk the matter over among themselves. Of course, we cannot continue to employ notorious individuals who have earned the people's hatred. But there are only a handful of those. We should also fire the ones who have simply used pull to get their names onto the Kuomintang government payroll. But again, there are only a few of them. We should take into account the attitude of the majority of former Kuomintang personnel. Recognizing that state power has changed hands for good and that the people's government is here to stay, they are now willing to receive education and learn about the policies of the people's government so that they can eventually find a way to earn a living. The situation is different from what it was in northeast China not long ago. When Shenyang was liberated, some of the Kuomintang personnel wanted to leave.²⁴ Now things are different: The ones who have left are asking to come back. Even some big shots within the reactionary camp want to revolt and come over to our side. Now that the reins of government are in our hands, it is our responsibility to feed the population. We must be careful about this. We

should give political education to the former Kuomintang personnel, help them remould themselves and put them to use. We have to take up this burden and not just consider the matter from the financial point of view.

8. *Relations between the field armies and the regions where they were originally stationed.*²⁵ Each of our field armies wants to have a “home” of its own. This is because the new liberated areas, which are experiencing economic difficulties, cannot fully meet their demands for material supplies, so they have to rely on their “home” regions. For instance, the Fourth Field Army of the People’s Liberation Army used to obtain its supply of cotton-padded uniforms from northeast China. This practice inevitably caused some waste. So what is to be done? As a general rule, the supplies provided by the regions to the field armies should be under the unified control of the central authorities. If the new liberated areas are unable to do their part, the central authorities can make up the shortfall. If the field armies require small quantities of paper, telecommunications equipment and other such supplies from their “home” regions, those regions should do their best to help. But if very large quantities of materials are involved, the matter should be referred to the central authorities.

9. *Relations between the different regions.* In this connection, there are just three points I want to mention.

First, where necessary, each region may establish an office in the other friendly regions. When the personnel of one region needs to contact the personnel of another region, they should do so through their office there. They should follow the rules and regulations of that other region and not act arbitrarily. Should the Central Financial and Economic Commission set up offices of its own in the various regions? That’s something we have to consider carefully. If it establishes such offices, it may run into trouble, because the regional authorities will be tempted to refer to them matters that they could handle themselves. So I think we had better not do that. If we don’t, will our work be more difficult? Not necessarily, because the financial and economic commissions of the various greater administrative regions¹¹ are, in effect, local offices of the CFEC.

Second, the transfer of large quantities of materials from one region to another should be made with the approval of the Central Financial and Economic Commission. For instance, the 200,000 tons of rice that the authorities of northeast China shipped to Shanghai were transferred there through the Commission. Small quantities of materials, however, may be exchanged directly by agreement between the sides concerned.

Third, in principle, basic materials stored in Shanghai by factories in the different regions should be returned to them. Any disputes should be

arbitrated by the CFEC. When they come to east China to recover their materials, comrades from other regions should behave like gentlemen and not make petty demands.

10. *Ensuring supplies for Shanghai.* The authorities of Shanghai should concentrate on organizing transport, especially inland navigation. All the big ships of the China Merchants Steam Navigation Company should be commandeered for use in the liberation of Taiwan.²⁶ Civilian navigation facilities consist mainly of small steamboats and of junks like those plying the Suzhou Creek in Shanghai. Though they are low-powered and slow and are costly to operate, they are better than nothing and should therefore be fully utilized. Moreover, we should allocate funds for building boats of this sort, which will meet our present urgent needs and also be useful in the future. The problem now facing Shanghai is to obtain adequate supplies of rice and cotton, and the key factor is the availability of transport facilities to bring them in.

This autumn we plan to amass 200 to 400 million kg. of rice from the Nanjing-Hangzhou region to meet the needs of Shanghai. We should not be pessimistic about rice supplies. According to our statistics, at the end of 1948 Shanghai had a population of 5.05 million, and by the end of last May it had risen to 5.5 million. But both these figures included the population of the surrounding rural areas. The city proper had only 4.4 million people, and now that 400,000 of them have returned to their home villages after liberation, it has no more than 4 million. Taking 11 kg. of rice per month as the average consumption per capita, 1.5 million kg. per day will be enough for the whole city, and that amount is now on hand. Besides, we should remember that Shanghai residents have extensive emergency reserves of rice. Since we have ample grain, we can be confident of controlling the price on the Shanghai market. Before liberation there were two or three hundred thousand speculators in Shanghai who were adept at playing the market and shifting their losses onto other buyers. They worked hand in glove with the government, which was the source of corruption. Since we don't take bribes or act for personal gain, and since anyone caught doing so is severely punished, the speculators can no longer have their way. With grain at our disposal, we can certainly exercise effective control over the market.

The authorities of north, east and central China should all ensure the fulfilment of their plans to purchase cotton.

Transportation is an important pillar of the national economy. We should develop water transport and aid in the restoration and expansion of the railway system. Repairing the Tianjin-Pukou Railway will be mainly the responsibility of Shandong Province. Since it is also very important to restore traffic along the Beiping-Hankou Railway, it too must be repaired, regardless

of the human and financial costs.

11. *Making full use of the telecommunications services.* For security reasons, we now use chiefly our own radio stations rather than the telecommunications services that we have taken over from the Kuomintang regime. From now on, however, while confidential message should continue to be transmitted or received through our own radio stations, all ordinary messages can be entrusted to the telecommunications services.

12. *Convening special conferences.* We plan to convene a number of special conferences after this one. They will include a monetary conference to discuss questions of foreign exchange and government bonds, a trade conference to discuss the purchase of cotton and a price conference to discuss our price policy, especially the parities between industrial and agricultural products. These price parities mean, essentially, the relation between the people's state, which is led by the proletariat, and the peasantry. We have learned some lessons in this respect in the Northeast. For example, the year before last, when we set the exchange rate between grain and cotton at 12:1 (kg.), the peasants gave up planting cotton. But last year, when we raised the rate to 13:1 and stipulated that cotton growers would be exempted from the public grain levy,¹⁸ the peasants responded by producing more cotton. This illustrates the great importance of our price policy and shows we must study it carefully and learn to apply it effectively.

We are also going to hold a conference to plan industrial production. In Shanghai there are many hardware factories that are similar to the repair shops of machinery plants. The recovery and development of these factories and of the industry as a whole are closely related. The factories, which have a highly skilled labour force, should diversify their products. The production of steel wire, for instance, has a promising future. They can also make spare parts and accessories for heavy machinery. To promote sales, both publicly and privately owned enterprises can hold sales exhibitions in other areas, or contact their counterparts elsewhere to organize mutual visits.

13. *Two requirements for the financial and economic commissions and related personnel.*

First, they should focus on economic development. They should try to cut back on expenditure and, especially, to increase revenue. It is important to economize, but it is even more important to tap new sources of revenue, and that means developing the economy.

Second, in each of the greater administrative regions, the financial and economic commission should become a sort of headquarters. At present, however, the commissions have only a small number of personnel, and that's not good. They should establish offices to handle special work such as

banking, finance and trade. Some can even designate particular members to be in charge of certain affairs, for instance, a secretary for industry or a member for planning. These comrades should read the relevant documents and data and consider specific questions. In this kind of work we can't rely on comrades in the lower-level departments. This work has become very difficult and wide-ranging, and it will be hard for us to manage unless we set up some units to do research in special fields. But where can we recruit the necessary personnel? It would not be possible to have them transferred from higher organizations; they will have to come from the various professional departments themselves. And they should be first-rate people, nothing less. Our existing organizations are utterly incapable of meeting today's requirements, and it's impossible for us to cope with the present situation merely by drawing on past experience. Nowadays we have to handle not only domestic matters but also economic relations with foreign countries. This calls for unity between Party members and non-Party people, between people in the revolutionary base areas and those who have been working underground in enemy-occupied areas, between people of a given region and those coming from outside. We need the broadest possible co-operation. In short, since we have to administer the affairs of a large country with a population of several hundred million, we have to enlist the aid of people everywhere, both Party and non-Party, who possess the necessary skills.