

HOW TO OVERCOME OUR SERIOUS FINANCIAL AND ECONOMIC DIFFICULTIES

August 8, 1949

Our country, particularly the southern front, is suffering financial and economic difficulties that have arisen in the course of our advance.¹ These will not be completely overcome until we finally win the war.

The War of Liberation is still under way in vast areas of the country. Most of the expense of sustaining the war and supporting more than six million personnel not engaged in production has been defrayed by issuing bank notes. By the end of July notes had been issued to the tune of 280 billion yuan.² The greater part of this money was spent on food and clothing. Shanghai, a big city where much industry is concentrated, faces great difficulties at present, but we must bear in mind that this situation will gradually improve. Barring extraordinary circumstances, the whole country, with the exception of Taiwan, Tibet, Xikang,³ Xinjiang and Qinghai, can be liberated between this winter and next spring.⁴ That will bring the population in the liberated areas to more than 440 million. We must not lose sight of this prospect. We should try not only to surmount our current difficulties but to find solutions to our financial and economic problems for the country as a whole. Otherwise, these problems will have a negative impact on the national economy and on the people's lives.

Now I should like to discuss the present problems in Shanghai and to propose some solutions.

1. *The problem of the enemy blockade.* We should be prepared for the imperialists to impose a long-term blockade on us, not only using warships,

Speech at a conference of leading cadres of the financial and economic departments from east, north, central, northeast and northwest China, held in Shanghai from July 27 to August 15, 1949. Comrade Chen Yun presided over the conference, which was a major event on the eve of the founding of the People's Republic. At that time, Comrade Chen Yun was a member of the Political Bureau of the CPC Central Committee and alternate member of the Secretariat of the CPC Central Committee and took charge of the work of the Central Financial and Economic Commission.

combat planes and underwater mines as at present, but also boycotting our exports and refusing to sell us what we need. Of course, there can be no watertight embargo against us; we can import and export a limited amount of goods through Hong Kong. And when Guangzhou is liberated, we shall have a trade route in the south. Moreover, there are contradictions among the imperialist powers that we can take advantage of, for while some of them may refuse to trade with us, others may still be willing to do so. We have trade routes in the north too—there are outlets in Tianjin, Dalian and Manzhouli. We can ask foreign businessmen to sell some of our goods on a commission basis. We should also be prepared for financial losses. Why? Because the prices of export commodities are determined by market conditions abroad, not by domestic production costs. Where financial resources permit, we should purchase the principal export goods from the countryside in order to support the rural economy. This will greatly benefit the peasants.

2. *The problem of the relocation of factories.* We have to be careful about this. Overcoming current difficulties and building for the long term should be treated as two separate things. We should not move factories elsewhere simply because they are having problems. It is not easy to fulfil all the economic conditions necessary for the relocation of a factory. For example, as far as the supply of raw materials is concerned, we can move a textile mill to a cotton-producing area. But the mill will still need appropriate buildings, electric power, machine-building plants and other enterprises to support it. These conditions are not necessarily present in a cotton-producing area. As I see it, the key factories in Shanghai will have to remain where they are; for the present they should do their utmost to maintain production.

3. *The grain problem.* The price of grain has risen at least twice as much as that of other ordinary commodities. For instance, the percentage increase in the price of rice has been more than twice as great as that for cotton yarn and cloth, pork, eggs or rubber shoes. The rise in the price of grain affects the cost of industrial production and the prices of other commodities. Shanghai needs at least two million kg. of rice every day (that is, an average of 10.75 kg. per person per month for a total population of 5.5 million). Since wheat flour is cheaper than rice, twice as many people as before are consuming it now, and the amount sold daily is estimated to be the equivalent of 400,000 kg. of rice. In addition, lately we have been putting about 400.0 kg. of rice on the market every day. The monthly sales of rationed rice and those through other channels amount to 15 million kg., or an average of 500,000 kg. per day. Actually, the three types of sales together come to a daily total of some 1.3 million kg., which means a shortage of 700.000 kg. every day. This shortage is made up by drawing on the

emergency rice reserves stored by the people of Shanghai during the Kuo-mintang occupation. Of course, such reserves don't amount to much, and they can be readily replenished if grain supplies are readjusted satisfactorily. Although the price of rice in Shanghai reached an all-time high on July 18, it has now dropped a little. We believe we have passed the peak for this year, but we should be prepared for all eventualities. In fact, the early rice crop is harvested in the Changzhou-Jiaxing region 40 days later than in other places south of the Yangtze River. In the area west of Changzhou and in Wuhu and northern Anhui Province it has already been reaped, and the price is lower there than in Shanghai. If rice from these areas were transported to Shanghai and then followed 40 days later by rice from the Changzhou-Jiaxing region, the grain problem would be as good as solved. Even if none of these supplies are forthcoming, we can still take other measures. We plan to ship in 60 million kg. of grain (30 million in September and the same amount in October) from northeast, central and east China. Sales of rationed and unrationed grain during the past two months show that 30 million kg. is enough to meet monthly needs. The authorities in other parts of east China should not prevent their rice from being transported to Shanghai. I have been told that the authorities of northern Anhui, Changshu and Wuxi do not allow grain to be shipped out of their areas. If this is true, I hope they will reverse their policy. Central China should not impose an embargo on east China either. No areas should restrict the shipment of grain; it should be allowed to move freely to ensure that supplies reach Shanghai. Next year we plan to amass 300 to 400 million kg. of rice in the Changzhou-Jiaxing region to meet Shanghai's needs at all times. If there are serious floods, we shall draw on the grain reserves of northeast China.

4. *The cotton problem.* It is good that over the past few months our cotton mills have kept operating around the clock for three or four days a week. If they continue to do this from August to November, they will need 790,000 *dan* of cotton [1 *dan* = 50 kg.]. The China Textile Corporation will use 360,000 *dan*, the privately owned textile enterprises in Shanghai 400,000 *dan*, and those in Qingdao 30,000 *dan*.⁵ The needed cotton will come from the following sources:

—230,000 *dan* now stored in Shanghai and 20,000 stored in Hong Kong by the China Textile Corporation;

—100,000 *dan* now stored in Hong Kong by the private textile mills and another 50,000 that they can purchase there;

—14,000 *dan* held by the Shanghai Trade Department and 72,000 held by the former Economic Co-operation Administration;⁶ and

—180,000 to be purchased from other places in east China, 100,000

from north China, and 30,000 from northwest China.

These supplies will total 796,000 *dan*. We have already assigned quotas to the various localities for the purchase of the new cotton crop, and we hope the new supplies will begin to flow in towards the end of November. We plan to reduce the amount of rural hand-spun yarn purchased and replace it with machine-spun yarn. To compensate the peasants for this financial loss, we shall lower the price of cloth. Next year we expect to purchase 3 million *dan* of cotton from north, central and northwest China and 1.8 million from other parts of east China, making a total of 4.8 million. If this can be done, the cotton mills will have about the same amount of cotton this year as last, if not more. The purchasing quotas will be passed down by the Central Financial and Economic Commission, and state-owned enterprises will be expected to work together with privately owned ones in fulfilling these quotas.⁷ It will be very hard to purchase the necessary amounts of cotton, but it can be accomplished if all sectors make concerted efforts. All the other regions should generously help east China. But even if we have the raw cotton, we may have problems next year exporting cotton yarn and cloth and selling them on the domestic market. We'll deal with these questions at a later date.

5. *The problem of transport.* More commodities (chiefly coal, grain and cotton) have been brought into Shanghai than have been shipped out (chiefly cotton yarn, cotton cloth and cigarettes). Coal makes up the bulk of the incoming freight volume. As far as railway transport is concerned, Shanghai faces far greater difficulties than northeast China. Ferrying at Pukou constitutes a bottleneck, because the railway section between Bengbu and Pukou allows the passage of only fourteen or fifteen trains in each direction a day.⁸ We should try to increase the capacity to sixteen to eighteen trains a day, seven of which should be used for hauling coal, three for grain, two for military supplies and the rest for other freight as well as passenger traffic. At present, in order for one train to give the right of way to another, it has to run very slowly for a long distance; also, the dispatching of trains is inefficient, and communications equipment is inadequate. We should shorten the distance required for one train to let another pass, provide more points for shunting, lengthen feeder lines, expand communications facilities and speed up loading and unloading so that trains don't stand idle for so long. Dispatchers should be highly skilled, because their work is very difficult—they have to deal with commodities coming from many different parts of the country where different management systems are used. The East China Financial and Economic Commission should recognize the importance of transport, make sure the work is well organized and set up a special office to

take charge of it. The East China Bureau of the Central Committee of the Communist Party should make a point of discussing this question. Work related to air raids is also very important. For one thing, trains should be equipped with anti-aircraft weapons; for another, they should be dispersed instead of being concentrated in one place. In short, transportation is a major problem, and unless it is solved, it will be extremely difficult for us to ensure adequate supplies of coal, grain and cotton for Shanghai.

6. *The problem of industrial production.* Every effort should be made to keep in operation two-thirds of Shanghai's key industries (textiles, printing and dyeing, cigarettes, and so on). Cigarettes produced in east China can be sold across the country. This will help Shanghai's cigarette factories resume production and will also increase our tax receipts. Flour mills should continue operating. As for the many hardware factories, they employ only about ten thousand workers. We can keep them going by using them to repair railways and build ships. These tentative ideas may not all be feasible, but we can put them into practice and see how they work. We can no longer tolerate the sort of thing that went on in Shanghai before liberation, when government functionaries and merchants worked hand in glove, embezzling public funds and engaging in speculation. The chief aim of transforming the old Shanghai is to restore production and keep it growing steadily.

7. *Monetary problems.* Now that a uniform currency is in circulation in areas south of the Great Wall, we must take the overall situation into account when dealing with monetary problems.⁹ A price rise will inevitably affect other places, and complaining about it won't help. In some regions the "self-defence" method of raising prices has been used to restrict the outflow of goods. This is not good. The only way to stabilize prices is to allow the free flow of commodities. For a while financial work will continue to be done by the local authorities themselves, but we shall not be able to cope with the current situation if each region looks after only its own interests and there is no centralized control of resources. While it is impossible to concentrate all our reserves, we must see to it that the major part of them is used in a systematic, rational and unified way. It has been proposed that Guangdong, Guangxi and the southwestern provinces issue their own bank notes, supposedly for the benefit of the rear areas. But can the front areas withstand the consequences? If the rate of exchange between *renminbi* and these new currencies remains fixed, they will in fact be the same as RMB. If the rate is allowed to fluctuate, we shall have major problems in supplying the front. The crucial thing right now is for our troops to win battles. All our work must be oriented towards victory in the ongoing war. Current military operations involve very large formations, so we need to issue a great sum of

money. The situation is quite different from that during the War of Resistance Against Japan [1937-45], when we were operating on a small scale and could use different currencies for the convenience of both the rear areas and the front. We can no longer do that today.

Now let me discuss how we can overcome our financial and economic difficulties this autumn nationwide and how we can make the situation better next year.

To cover our expenses this autumn, we need to issue 163.3 billion yuan of *renminbi* every month from August through October. Taking the 280 billion yuan issued by the end of July as the base figure, this means an increase of 58 per cent per month. If the amount of money involved in commodity circulation remains unchanged, prices will increase by 58 per cent all the same. The additional bank notes issued will serve mainly to cover military expenditures and railway repairs. We still have to consider what to do about investment in industry and the purchase of farm produce. In November and December, besides military spending we shall have to buy cotton and export commodities. To cover these two items, each month we shall have to issue an additional 169.2 billion yuan's worth of bank notes. Can the price rise be lowered? Yes, because various new factors will come into play during the winter, including the further expansion of the liberated areas, the appearance of new farm produce on the market, the recovery of industrial production and the marketing of cotton yarn and cloth. Our conservative estimate is that prices will drop by about 20 per cent, which means a net rise of only about 40 per cent. Can we reduce our expenditures? No. First, because if we cut back on military spending, we would be unable to meet the needs of the army. Second, because if we cut back on the issue of bank notes for purchasing cotton and export goods, we would create difficulties in both agricultural and industrial production. Of course, we can reduce expenditures to some extent by economizing, but those savings won't amount to much.

What should we do in this situation? We have only two alternatives: to continue issuing bank notes, or to float government bonds. These two possibilities were raised while I was in Beiping [Beijing], and the Central Committee asked us to discuss them and come to some decisions. The authorities of central China have proposed that they issue government bonds in their own area—and in a very large amount, too.¹⁰ Indeed, all the leading comrades from the various greater administrative regions have agreed that a certain number of government bonds should be issued.¹¹ I hope the comrades present here will give this matter further consideration. If we choose the former alternative of issuing more bank notes, thus causing monetary

inflation, everyone will suffer. As a matter of fact, rich people don't keep a lot of cash, so it is, first of all, the urban wage earners and, second, the army, Party and government personnel who will suffer most. If we want to issue fewer bank notes, we shall have to issue government bonds.

What amount of bonds should we issue? About 120 million silver dollars' worth, or ¥200 billion.¹² Some comrades favour a larger amount. I personally propose that we issue bonds in the amount of ¥240 billion (perhaps some of these will be purchased with gold or foreign currencies).¹³ Bonds should be sold mainly in the cities, but some also in rural towns in the new liberated areas, so as to spread the use of RMB. With China's vast territory, 120 million silver dollars' worth of government bonds is not a large amount. For purposes of comparison, Chiang Kai-shek wants to issue 200 million silver dollars' worth of bonds just in the shrinking area still under his control. That's what he has always done when he was at the end of his rope. Northeast China, for all its 40 million people, has a much lower proportion of private enterprises than areas south of the Great Wall. Yet the authorities there have decided to issue, in two instalments, government bonds to a value of 12 million silver dollars, and the first instalment has already been sold on schedule.¹⁴ So, in areas south of the Great Wall, where there is a much greater proportion of private enterprises, higher targets can be set for bond issue.

Of course, issuing government bonds is going to be a difficult task. Our industrial and commercial enterprises are still unable to operate normally, so they will complain when we assign subscription quotas to them. Will urban industry and commerce collapse if we issue government bonds? I don't think so, because the amount of bank notes issued every month will exceed the amount withdrawn through bond subscription. Our current note issue totals ¥163.3 billion a month, while the amount to be raised through the sale of bonds is only ¥60 to 70 billion. The currency thus withdrawn is limited, so we need not worry about a lack of working capital. We'll see how things stand at the time and cut back a little on bonds if money is too tight. We have drawn up a set of regulations for the issuing of government bonds, which I hope you will discuss.¹⁵ There should be unity of action in this regard among the various localities; if the amount of bonds issued varies too much from one place to another, there may be loopholes for people to exploit. Bonds should be valued in parity units based on the wholesale prices of certain commodities.¹⁶ Also, they should be redeemable. As for the term of the bonds, for the first instalment it should be short—three years, one-third of the bonds, chosen at random, being repaid with full interest each year starting with the first. Could we begin issuing bonds next year instead of this year? I don't think we can wait that long.¹⁷ If we postpone issuing them until

next year, we won't be able to overcome our present difficulties. Government bonds can't solve all our problems, it's true. We must also work hard to improve tax collection, streamline the organizational structure, practise economy and adjust the distribution of material supplies.

With regard to budgetary revenues and expenditures for next year, we have the following tentative ideas, based on a possible increase of population in the liberated areas to 445 million.

On the revenue side, public grain will total 9.65 billion kg. (5.25 billion kg. of rice and 4.4 billion kg. of millet).¹⁸ It will come from the following regions:

- East China: 3.25 billion kg. (2.25 billion of rice and 1 billion of millet);
- North China: 1.5 billion kg. of millet;
- Central China: 2.25 billion kg. (1.5 billion of rice and 750 million of millet);
- Guangdong and Guangxi provinces: 500 million kg. of rice;
- Southwest China: 1.5 billion kg. (1 billion of rice and 500 million of millet); and
- Northwest China: 650 million kg. of millet.

Calculated according to prices at the end of July this year, tax receipts will come to ¥1,750.2 billion. The breakdown by region will be as follows:

- East China: ¥710 billion (of which 350 billion from Shanghai, or five times the amount from Tianjin);
- North China: ¥180 billion;
- Central China: ¥220 billion;
- Southwest China: ¥180 billion;
- Northwest China: ¥48 billion; and
- Guangdong and Guangxi: ¥180 billion.

These calculations are based on the tax receipts of Tianjin and on the population of the various regions compared with that of Tianjin. Because a different currency in northeast China is being used, it is hard to make a uniform calculation for that region.¹⁹ Next year we plan to bring to areas south of the Great Wall the following commodities from northeast China: 200,0 tons of rice, 100,000 tons of soy beans, 500,000 tons of coarse grain [corn, sorghum, millet etc.], 200,000 tons of steel, and 1.5 million cubic metres of timber for making railroad ties.

Turning now to expenditures, the cost of supporting 9 million personnel not engaged in production is calculated on the basis of an equivalent of 1,500 kg. of millet per person. One-third of this total expenditure will be supplied

in grain, which means a total of 4.5 billion kg.; two-thirds is to be paid in cash, which means a total of ¥2,316 billion (the price of rice being taken as ¥300 per kg, and that of millet as ¥120 per kg.). In addition, administrative expenditures will come to ¥746 billion.

It can be seen from the planned receipts and expenditures of public grain that there will be a surplus of 5.15 billion kg., or the equivalent of ¥1,023 billion. But expenditures in cash are expected to total ¥3,062 billion. So even using the tax receipts and surplus public grain to defray this expense, we will still have a deficit of ¥288.8 billion.

You may say that this budget presents some problems, because it leaves a deficit and fails to take account of available reserves. Yes, those are problems, but if we make an effort, they can be solved. Right now, the two most important things are to collect the public grain successfully and to improve tax collection. People in the old liberated areas hope that their public grain burden, which has been very heavy, will be lightened somewhat in the years to come. However, we can't yet impose the same public grain levy on the new liberated areas as on the old, because our work in the new areas is not yet firmly established. So we can't afford to reduce the burden on the old liberated areas this year. If we did, it would create problems, because the new liberated areas cannot yet contribute as much as they are supposed to.

It is possible to reach the target for tax receipts described above. What are the conditions that will enable us to do so? In the past, when most of the big cities were in enemy hands, three-fourths of our total revenue came from the agricultural tax. This situation has changed since we liberated the big cities. In northeast China tax receipts and receipts from publicly owned enterprises and foreign trade departments make up three-fourths of the total revenue, while public grain accounts for only one-fourth. In north China tax receipts now make up 38 per cent of the total revenue, and we should try to increase them to 50 per cent. This shows that taking the big cities has made a difference. We used to say that the enemy, who controlled the cities, was economically stronger than we, who could operate only in the countryside. That's because cities provide more financial revenue than rural areas. We should gradually increase the proportion of tax receipts in our total revenue. One way to eliminate the financial deficit is to augment tax receipts; the other is to issue more bank notes. The different methods would produce different results. Our principle should be to issue more bank notes if necessary—and to issue them in good time. Take northeast China, for example. With relatively stable prices, much commercial investment had been shifted to the area of production. At the same time, more bank notes

were being saved. All this meant that less money was in circulation, and the market was feeling the effects. Consequently, more bank notes had to be issued. This did not cause prices to rise. Before the outbreak of the War of Resistance, more than two billion silver dollars' worth of money (including local currencies) was in circulation throughout the country. Twelve years of war have adversely affected both production and money circulation, and so fewer bank notes should be issued now than before the war, say, no more than 500 million silver dollars' worth.²⁰ In other words, we should make two 50 per cent reductions in the prewar figure. We have, however, issued only 100 to 120 million silver dollars' worth of RMB, which is a very small amount. Our tax receipts are not very high either. No great problems will arise if we collect a little more taxes, especially at a time of economic expansion. When the financial deficit is not so great, we can try to increase tax receipts to attain a rough balance between revenue and expenditure, so that the economy can develop on a sound basis. Then, when currency is relatively stable, even if we issue more bank notes, commodity prices will remain stable too, and we can accomplish a great deal. An adequate supply of money will serve to expand production and thus increase tax revenue. As a result, we shall have more reserve funds and be able to invest in industry.

Lastly, a few words on suppressing bandits and mobilizing the peasants.

The suppression of bandits and the mobilization of the peasants can play a significant part in helping us to reach our financial and economic goals, and the Party, the government and the military organizations should make every effort to succeed in these two tasks. Of course, we should also keep trying to expand foreign trade and improve tax collection. As far as assigning cadres to rural areas is concerned, I am in favour of it. We should try to send goods there as well. Nowadays, in most of the countryside prices are calculated in terms of a specific quantity of millet, which is also used as a means of exchange. When we have wiped out the bandits and mobilized the peasants, we can expand our rural economy and RMB will take over the market. Politics and economics—these two should go hand in hand.

Next year the consolidated territory under our control will expand to embrace a total population of well over 400 million, which will be unprecedented since the birth of the Republic of China in 1912. We should be mentally prepared for rapid development of the military situation. Otherwise, all our work will lag behind the changing reality, and we shall be reduced to passivity.