

READJUSTING THE RELATIONS BETWEEN PUBLIC AND PRIVATE SECTORS AND IMPROVING TAX COLLECTION

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First, I should like to discuss the readjustment of the relations between public and private sectors.

This is a question that Comrade Mao Zedong referred to as taking the five sectors of the economy as a whole and giving them overall consideration.⁷⁷ In other words, we must act in accordance with Article 26 of the Common Programme.⁷⁸ The provisions of Article 26 merit the attention of all cadres. Some non-Party persons know these provisions by heart, but some of our Party members have forgotten them. Now all cadres working in government financial and economic institutions have been issued copies of the Common Programme. They should become thoroughly familiar with it and use it as a guide.

Should we or should we not give due consideration to all five sectors of the economy? Of course we should, because private factories help increase production, and private shops promote the circulation of commodities. In this way, they both help reduce unemployment and therefore benefit the people. We now have under our control all the organs of state power and also the major factories, mines, railways and financial and trading institutions. This means we are now so powerful that the capitalists cannot afford to oppose us. (Of course, there have been many serious incidents of “friction”, especially this year.)⁷⁹ When Shanghai was liberated last year we were short of supplies, having only 10 million kg. of grain at our disposal in

Excerpt from a speech delivered at the Third Plenary Session of the Seventh Central Committee of the Communist Party of China. At this session it was decided that Comrade Chen Yun participate in the work of the Secretariat of the CPC Central Committee when Comrade Ren Bishi was recuperating owing to illness. In October 1950 Comrade Chen Yun served as a member of the Secretariat of the CPC Central Committee.

the city. How much grain does the government have on hand in Shanghai today? Eight hundred and fifty million kg., or enough for a year and a half. So there is no need to worry about grain. As for cotton, we had only 500,000 kg. last year, but now we have much more.

Under these circumstances, it is imperative for us to work out an overall plan for all sectors of the economy, including not only ours, the state sector, but also the private sectors. Otherwise, the capitalists' enterprises will shut down, and workers and other employees who lose their jobs will hold it against us. If our plans cover only state enterprises and not the many private enterprises, we shall find it hard to draw up a national economic programme and carry it out. Only when all five sectors of the economy are given due consideration and allowed to play their part can we all work together to build New Democracy and then socialism. Each of the five sectors has a different role, with the state sector exercising leadership and supervising the others.

We must take a clear-cut stand against any wrongdoing by the capitalists that might harm the economy and the people, such as speculation and profiteering, manipulation of markets, tax evasion or sabotage. We should make our position clear to the capitalists and be on the watch for losses they may cause us. Generally speaking, capitalists are always seeking to advance their own interests and tend to make trouble. We don't have much experience in economic affairs, so we have to put up with their greed, but we should also learn from them. Last year, having found out that we planned to build ships, the capitalists in Shanghai started buying huge quantities of raw materials necessary for shipbuilding, which resulted in losses for the state. The capitalists are concerned solely with their own interests. When invited to our meetings, they make only such proposals as benefit them personally. This is something we have to bear in mind.

What measures should we adopt with regard to privately owned factories? One thing we should do is to place orders with them for manufactured goods, either supplying them with raw materials or not, with a view to systematically organizing their production and marketing. Twice a year we shall collect all the orders for goods placed by army units and government organs and assign them to appropriate factories in various localities. In our society production has always been unplanned. Now we are determined to plan production and to centralize as much as possible. Collecting and distributing orders for goods will not only help to eliminate anarchy but will also push the capitalists towards socialism. The work will be troublesome, but it has to be done.

In assigning orders for goods to public and private factories, we must see to it that the interests of both are taken into account and that each

receives an appropriate percentage of the orders. That is what I have to say about industry.

Now about public and private relations in the field of commerce. First, these include pricing policy. Our ability to maintain good, well co-ordinated relations with private merchants depends to a large extent on the way we handle pricing problems. For example, we must allow for an appropriate difference between wholesale and retail prices so that private merchants can make a profit. If the wholesale and retail prices for a certain commodity are the same—for example, fixed at 100,000 yuan²—private merchants will find it hard to stay in business. The primary task for our state-owned department stores is not to withdraw currency from circulation by selling more goods but to stabilize market prices.

Second, there must be a division of labour in purchasing farm and sideline products. Is it feasible for all these products to be purchased solely by the state? No, because that would take too long. Besides, we do not have enough warehouses. Furthermore, our country is vast, with widely scattered villages. Peasants are mainly engaged in small-scale production, and most agricultural products belong to individual households. So, the flow of goods between city and country should not be monopolized by the state trading companies. That would harm the interests of the peasants. (At this point, Comrade Mao Zedong spoke up, saying, “That would also be harmful both to the Communist Party and to the people’s government.”)

The peasants want us to set somewhat higher prices for their products. It would be hard to satisfy this demand. One reason is that in fixing selling prices, we have to take into consideration the consumers’ ability to pay. Take, for example, bananas—a delicious fruit from Guangdong Province. If you charge too high a price for them, not many people will buy them and they will spoil. Moreover, we must leave some profit to the merchants. So long as we solve these two problems, offering a reasonable price to the consumer and a certain amount of profit for the merchant, there will be a brisk market for many commodities. Many farm and sideline products are labour-intensive. Some peasants take their products to market in carts drawn by donkeys. If transportation is included in their production costs, the figure will be quite considerable. Of course, peasants need to feed their draught animals, whether or not they are engaged in a sideline occupation. The point is that by using animals for transportation, the peasants can earn more income and gain additional benefits.

Third, we must keep a tight rein on imports but relax control over exports. People should be allowed to sell all kinds of goods abroad, even if they are not expensive items. In this way we can gain some initiative.

The state bank should exercise leadership over the private banks. Private banks hold some small deposits, and we should find ways of using those funds. Gold and silver coins¹² are for the most part frozen. It would be better to put them back into circulation, but the timing will depend on the degree of stability of RMB. It seems unlikely that we can do it this year. We must wait until we have considerable financial resources and then gradually begin to purchase U.S. bank notes, gold, and silver coins, in that order. There is a substantial quantity of gold held in private hands—an estimated 156,250 kg. Even if we assume that the actual amount is only 46,875 kg., the total value will be equivalent to US\$ 100 million. The above shows that this year we can't afford to buy U.S. bank notes, gold and silver all at once.

Next, I want to talk about taxation, grain, government bonds and other problems.

There are many shortcomings in our work in all these areas. (Comrade Mao Zedong interrupted, saying, "Above all, there have been remarkable achievements.") What has caused the shortcomings as far as the comrades in leading financial and economic institutions are concerned? Partly political ignorance and partly professional incompetence. Some comrades in charge of taxation never studied carefully the question of whether the tax rates were beyond the people's ability to pay—in other words, whether they were within reasonable limits. Also, taxes should be levied on major commodities that are sold in large quantities, such as cotton yarn and cloth and tobacco, but not on all sorts of insignificant items. Because of thoughtlessness on the part of these comrades some ridiculous things have happened: for example, eggs for sale have had tax stamps affixed to them.

Tax collectors must have available a list of tax rates and a list of taxable items, but we have published only the first. Asked whether something is taxable or not, our comrades can't give a definite answer. After referring to the regulations, in which a category of goods subject to taxation often includes items vaguely described as "and so on and so forth", they have to impose taxes on almost everything. We haven't worked out methods and detailed rules for tax assessment and collection; all we do is shout at the tax collectors, "You should collect taxes!" We are complete novices in this area.

It is essential for cadres who deal with financial and economic matters to concern themselves with politics. Their heads full of figures all day long, preoccupied with financial problems, they have little time to consider other matters. We must remind them that if they do not have a mass viewpoint and a political viewpoint, they are liable to make mistakes. Comrade Mao Zedong has suggested that the agricultural tax be reduced a little this summer and autumn. As for tax rates, I should prefer not to increase them in the

next three to five years and even, in some cases, to lower them a little. Such policies are right and must be adopted. This is because, first, the Chinese people have suffered a great deal during the past twelve years of war.²⁰ Second, according to established tradition, when a new regime is inaugurated, it's supposed to mark the event by doing something nice for the people. (*Laughter*) The new state we have just inaugurated is unusual, entirely different from the empire of the Qing Dynasty, the rule of the northern warlords or the Chiang Kai-shek regime; all the more reason why it should do something good for the people.⁸⁰ Third, during the current readjustment of the national economy, there are many problems to be solved, such as unemployed workers and closed shops. Since readjustment will take time, we think it would be well to reduce tax rates for some commodities in the next few years.

Nevertheless, we estimate that next year's tax revenue will be no less than this year's, because production is returning to normal, we are taxing more items and there is less tax evasion. Steady growth in production will make it possible to increase annual state revenue. In an agricultural country like ours, even a few years of political and economic stability will greatly stimulate people's enthusiasm for production, thus ensuring increased income for the state.

Given the present state of revenue and expenditure, there are two constraints we need to remember. First, we shall have to cut way back on the administrative expenses of state organs. At present, military expenses account for more than 40 per cent of total expenditure and administrative expenses for 23 per cent. In addition, most of the reserve fund, accounting for 10 per cent of the total, is also used by military and government organizations. These three major items add up to three-fourths of total expenditure.

Second, in the next few years we cannot expect to invest large sums in industrial development, because we simply cannot afford to. In future, when state revenue has increased considerably and the number of administrative institutions has been reduced, we shall be able to do more in that regard. For the time being, however, industrial investment must be concentrated on key projects.

This year out of a planned total of 12.5 billion kg. of public grain,¹⁸ we collected some 11 billion kg. Next year we shall probably collect 10 billion. This year's harvest is not promising, so if we place too heavy a tax burden on the peasants, they will complain. It would be better to impose a single agricultural tax with fixed quotas. That means that the tax on crops such as cotton, soybeans and millet would be assessed annually, and no further tax would be imposed that year, even if production proved to be greater than

anticipated.⁸¹ Peasants should not have to pay taxes on the chickens and sheep they raise, nor on the few eggs they choose to sell. Such a tax system would encourage them to develop diversified production.

Industrial and commercial tax⁵³ is the most complicated. These include a 1 to 3 per cent sales tax and a 5 to 30 per cent income tax. There is also a 1.5 to 6 per cent rural transaction tax.⁸² Yesterday the Indian ambassador asked me, "What is the highest tax rate in your country?" "Thirty per cent," I answered. He told me the maximum rate in his country was 80 per cent. A tax handbook has been issued, and I hope comrades will carry it in case people ask for an explanation of a particular regulation. Of course, the handbook will be revised, and there will be some changes and additions. Sales taxes are the most complex and troublesome. Since they are indirect taxes, it is hard to decide what the rates should be. We must keep to the stipulated tax rates and make sure the amounts collected correspond to those rates.

Tax collection is now a tremendous task, so we need a plan. Heretofore we have had no plan, and our collectors have been at a loss how to proceed. Is it necessary to make a rough estimate of the total amount of taxes to be collected? Yes, but to do that we must first estimate the volume of business and the average profit level. Investigation and study are needed to provide reliable data on which to base our estimates. It's better not to have too many taxable items and complicated procedures, so that we don't get bogged down in details and neglect more important things.

A campaign should be launched among tax collectors to improve their work style and correct undesirable tendencies. Ninety to 95 per cent of them are new recruits. There are also some embezzlers, but very few, because tax collectors know that if they are dismissed for embezzlement they will find it hard to make a living at anything else. Now each of them wears a government-issued uniform with a badge indicating the office where he works. This reminds him that his personal reputation and future are at stake and that once dismissed for corruption, he can never again be employed by the government. During the rectification campaign we must make it clear to tax collectors that they have been doing good and useful work but that there have been certain mistakes and that these must be corrected. In a word, we must help them cultivate a strong sense of responsibility towards their work.

This year we have issued one hundred million *fen* of government bonds,⁴¹ which has done much to withdraw currency from circulation and stabilize prices. However, we issued too many and all at the same time, just when most taxes were being collected. It would have been better if we had staggered them. Judging from the current monetary situation, it is unwise to withdraw such large amounts of currency from circulation in a short period

of time. So there is no need to urge people to buy the remaining bonds, if they are reluctant to do so, and no more will be issued this year.

As an agricultural country, China must rely on agriculture as the major source of funds for investment in industry. Industrial development requires large sums, the greater part of which can come from nowhere else. This does not mean, however, that we can concentrate on industrial development to the neglect of agriculture, which now represents nearly 90 per cent of the national economy.

Should we export grain or cotton? That depends on the world market. If there is a greater demand for cotton, then peasants in north China should be encouraged to devote more acreage to cotton and those in other areas to produce more grain. This requires an overall, unified plan based on careful calculations. Unless we make a survey of potential markets beforehand, it will be difficult for us to find a ready market for our cotton.

In handling economic affairs we have to consider all factors and take an overall view. Right now we are placing our hopes mainly on grain and cotton production. Ever since the Qing Dynasty, China has purchased cotton, grain and oil from abroad. If we continue to use foreign exchange to buy those commodities, how can we purchase the machines we need for industrial development? So we must give first consideration to the production of cotton and grain.

Under present circumstances, investment in industry has to be concentrated on key projects. Right now, priority must be given to oil projects and, in future, to electric power projects, railway construction and so on. In planning industrial development, we have to take a strategic approach. We should carefully select locations for projects, taking into account the availability of necessary natural resources. It would be wrong to focus on one year's industrial development without at the same time making plans for the following year's. It would likewise be wrong to concentrate most of our efforts on industry one year and then on agriculture the next.

Conditions in northeast China are quite different from those south of the Great Wall. In northeast China, industrial production has been restored, because there are factories, machines, workers and capital. But that is not the case in areas south of the Great Wall. In those areas, building a new factory, including ordering and installing machines, generally takes quite a long time—three to five years. What would a factory built and put into operation within one year look like? Probably much like one of the cave dwellings in Yan'an. In most cases an industrial project cannot be expected to produce returns on investment in the year it is built. In matters of economic development, it is better every year to prepare for the next. We should draw

up plans to cover not only the present year's investment but the next year's as well, giving thought also to investment in the years to follow.

Various conferences are now being held to discuss such questions. We don't have enough statistical data. Last December, when the Budget Estimates were being prepared, we had only rough calculations to go on. What else could we refer to? In future, however, we shall probably be able to make our budgets more realistic.