

## SOME IDEAS ABOUT FINANCIAL AND ECONOMIC WORK

*August 6, 1953*

First I should like to talk about price policy. There are a number of reasons for the current high prices of many commodities. For certain goods, it is we ourselves who are responsible. For instance, the price of cotton yarn and cloth went up a little in 1950 and again in 1951 because we introduced a sales tax on them.<sup>91</sup> For other goods, it is because they are in short supply. From 1950 to 1951 we had only a limited stock of sugar, so we were not able to meet the market demand and consequently the price rose. For still other goods, the price rise is due to the low efficiency and high production costs in state-owned enterprises. Once we improve efficiency and lower production costs, prices for these goods will fall.

I agree with the comrades who say we should be careful about lowering prices. It is easier to lower a price than to raise it. If we raise a price that has been lowered, people will complain. We should not treat all prices in the same way, that is, we should lower only those prices that can be lowered at this stage.

Cotton yarn and cloth are most important to the peasants. According to a survey conducted in northeast China, these two commodities absorb 30 per cent of the peasants' purchasing power. So if we lower the prices on them, it will benefit many people and help narrow the gap between the prices of industrial and agricultural products.

Last spring we proposed that the prices of cotton yarn and cloth should be lowered a little, if possible. However, there are two things we have to take into consideration: the amount of cotton yarn and cloth available for this year and the impact that lowering the prices would have on tax receipts. We estimated earlier that we would have 550,000 bales of cotton yarn on hand

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Excerpt from a speech delivered at a meeting of the leading Party members' group of the National Conference on Financial and Economic Work held in Beijing in the summer of 1953.

by the end of this year, but now we calculate that we shall have only 380,000 to 390,000 bales and 25 million bolts of cloth, which is also less than expected. If we don't have a sufficient stock of these commodities, we shall have to postpone lowering their prices until next year. Right now receipts from the sales tax on cotton yarn and cloth amount to 1.8 trillion yuan;<sup>2</sup> if we reduce the tax by 50 per cent, our revenue from this source would drop to 900 billion yuan and, even so, it would reduce the prices of cotton yarn and cloth by only 2 or 3 per cent.

We should proceed carefully in these matters. Because there are still private merchants in business, simply reducing the prices will not necessarily benefit the people. Sometimes when we do that, it brings no savings to consumers, because private merchants seize the opportunity to hoard goods and then, when ours are all sold out, to sell theirs at higher prices, making enormous profits. As long as various sectors of the economy co-exist, we must be careful about reducing prices.

Since last September I have hesitated to recommend lowering prices. Because of the military expenses we had to bear, I was worried about a potential decrease in our profits. We could not cut those expenses, because it was not up to us to decide if there was to be war. Last year when President [Dwight D.] Eisenhower took office, he said the Americans would make landings on both sides of Korea. So we had to give top priority to ensuring military supplies. A considerable proportion of the budget had to be allocated to military expenses. Fighting continued until late July just before the armistice was signed. So we had no choice.

(Comrade Zhou Enlai interrupts, "Funding for national defence will continue to account for a large proportion of the budget in the years to come.")

Now that the Korean war has ended, I am greatly relieved. For the past three years I have been worrying about the war, which has been more important than anything else. In March 1950 we unified national financial and economic work<sup>83</sup> and stabilized the market. In June the Korean war<sup>88</sup> broke out, and in October the Chinese People's Volunteers went to Korea. At that time the situation was tense: at the front we had to resist U.S. aggression and aid Korea, and at home we had to stabilize the market. Confronted with these two difficult tasks, we could not afford to fail in either. We had to succeed in resisting U.S. aggression and stabilizing the market at the same time. These were paramount tasks. Later Comrade Mao Zedong suggested we should not only resist aggression and stabilize the market but also undertake economic development. These were the major problems that were always on my mind.

We have to narrow the gap between prices for industrial and agricultural products. This is an objective to which the Communist Party is committed, and we should never forget it. The purpose of revolution is to improve the lives of the great majority of people, but in view of the shortage of manufactured goods, it will be hard for us to do that soon. It is my duty to make this clear, because we must accumulate funds to expand production.

Now I want to say a few words about lowering interest rates. Last June we lowered them, but only slightly.<sup>132</sup> We could not afford to lower them too much or too soon. Up to last year prices were rising, and there were still many private banks, so we were not able to reduce interest rates then. However, after the movements against the “three evils”<sup>112</sup> and the “five evils”<sup>121</sup> were over, private banks became joint state-private enterprises, and their 18,000 staff members became government employees. Then it was possible for us to lower interest rates. I also agreed with the suggestion made by some comrades that we should lower the rates twice. Actually, we did so only once, but that was an oversight, and it should now be remedied. We should make a special study to determine to what extent the rates should be lowered.

Next I want to discuss how we should use the country’s financial resources in future. We must help local authorities overcome their most pressing financial difficulties. But all of us agree that we should concentrate our financial resources on construction of industrial projects, so local authorities will refrain from asking too much of the central government. Funds can be used only on construction of key projects that will be of major importance for the economy; this is our basic line. Where we are sure that delegating financial authority to local governments will not be of much help to them, we can postpone doing it.

Now about who should have the power to draw up budgets. Budgets reflect state policies; they are not designed simply to calculate and control revenue and expenditure. Accordingly, the Party should be responsible for them—the Central Committee for the national budget and the provincial and municipal Party committees for local ones. In this way the Party will be able to apply its financial and economic policies.

In the past when we drew up a budget, the financial and economic departments (the Central Financial and Economic Commission<sup>7</sup> and the Ministry of Finance) were supposed to propose a draft, invite comments on it from the heads of the various ministries and of the commissions of law, culture and education, and then revise it in consequence. Actually, the ministries and commissions didn’t have much say in the matter, and we tended to ignore their needs. We had no choice but to do this then, and there

will be changes in this respect in future. Of course, it will still be necessary for the financial and economic departments to propose a draft budget for discussion.

Finally, I should like to say something about the need to expand the volume of trade of state-owned stores. That has to be done, but we should not unthinkingly squeeze all private merchants out of business. We should ask local Party committees to see to this, and not just leave it to commercial departments themselves. We should have opened more state stores; our failure to do so is a Right deviation. However, we should be ware the notion that it is better to be too Left than too Right, lest we fall into Left deviation.

We should treat private retailers and wholesalers differently. Last year the Central Committee issued a directive on the readjustment of commerce that made it clear how to deal with retailers.<sup>133</sup> We should adopt a different policy towards wholesalers. Since we have retained control of the sale of salt, coal and undyed cloth, etc. there is no need for us to regain our position in those markets. We should not prevent private wholesalers from dealing in certain other goods—rural specialty products, for instance. We have nothing to gain by driving them out of business. But if private businessmen dominate the market for commodities that we should control, we shall force them out. In doing this, however, we should proceed gradually, considering carefully which commodities we should control and what proportion of the market for them must remain in our hands. With good preparation, we can ensure that while we gain control of some commodities, we are not losing control of others to private merchants. We should be particularly careful about this in areas where there is a low proportion of industry, little investment in capital construction and a high proportion of commerce. In short, the state is powerful, and it will not be hard for us to drive private merchants out of business, but we must not do so recklessly.