

SOME IDEAS ON PRICE CONTROL

November 16, 1949

1. At the end of July Dragon Head cotton cloth was selling in Shanghai at 27,000 yuan² per bolt and Gold City³⁶ 20-count cotton yarn at ¥600,000 per bale. These prices, considered abnormally low in terms of national price levels at the time, were due to a tight money supply, an overstock of the goods in question and a limited market. In estimating the present nationwide price index, we should take as a base instead ¥30,000 for a bolt of Shanghai cotton cloth and ¥700,000 for a bale of Shanghai cotton yarn. Calculated in this way, the price of ¥77,000 for cloth and of ¥1.85 million for yarn, quoted on November 12, meant an increase of less than 200 per cent. The Central Financial and Economic Commission⁷ explained this in its telegram of November 13³⁷ to the financial and economic commissions of the greater administrative regions.¹¹

2. The markets in Beijing and Tianjin were in chaos on November 12 and 13 respectively, when a few grain merchants demanded prices 400 to 500 per cent higher than the price of the end of July. However, the market began to return to normal yesterday in Beijing and today in Tianjin: the prices of both grain and cloth are falling to a point that represents only the expected increase of 200 to 300 per cent. We foresee that in the last couple of days towards the end of the current round of price increases, prices may rise abnormally in other places—by well over 200 per cent. But this will be a temporary phenomenon, and in general, prices will gradually fall. Nevertheless, because of special factors such as an imbalance in the money supply and problems of supply and demand, the prices of certain commodities may not come down.

3. From now on, and especially in times of sharp price rises, when local authorities prepare reports on commodity prices they should indicate for each

Telegram to Comrade Deng Zihui, Chairman of the Financial and Economic Commission of East China and to his counterparts in northwest, south China and other greater administrative regions. It was drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.³⁸

item both the official price and the black market price and estimate the proportion of each in the total volume of sales. It is particularly important for the authorities of Shanghai and Tianjin to do this, so that our cadres in north, central and south China—and, in future, southwest China—will be able to control prices in their regions.

4. In calculating the future average price index, the authorities of the various localities should estimate whether they are going to have a surplus or shortage of particular commodities. They should also anticipate whether local prices of certain goods will be influenced (and, if so, to what extent) by the fluctuating prices of the same goods in Shanghai and Tianjin. (For instance, the prices of cotton yarn and cloth in Shanghai have a big influence on the prices of those goods in Hankou, while in the case of rice the influence is insignificant.) This will help local authorities set prices that are appropriate not only for their own localities but also in relation to prices throughout the country.

5. It is possible that the markets in Shanghai and Hankou may go through a period of chaos just as they did in Beijing and Tianjin on the 12th and 13th, but probably to a lesser extent. If that does happen, even if prices go up by 200 per cent, there is no cause for alarm, provided we have cut back on the amount of currency issued. In that case, we shall have to sell the normal amount of grain, edible oils and salt, but no more.

6. For the last couple of days our trading companies in Beijing and Tianjin have been unable to sell grain, so the price has been falling. If the same thing happens in Shanghai and Hankou, it will mark the end of the current price rise. We think that when the money supply in the localities has been reduced and the prices of cotton yarn and cloth in Shanghai and Hankou have risen to the anticipated limit, prices throughout the country may become stabilized by November 25. That's a possibility. To be on the safe side, however, the authorities of the various localities, in accordance with the telegram of November 13, should continue to do their utmost to prepare the necessary supplies.

7. The Hankou authorities should make daily reports on the local price situation to the Central Financial and Economic Commission and the Ministry of Trade.³⁴

8. In east China, the prices of the four essential commodities—rice, cloth, cooking oil and coal—may rise by 250 to 300 per cent compared with those of the end of July. While local authorities should be prepared for this possibility, they should make their decisions on the basis of the Shanghai prices of about November 21.