

Economic and financial problems in the anti-Japanese war

## 7. on the development of self-supporting industry

The agriculture, animal husbandry, handicraft industry, cooperatives and salt industry discussed above are all economic undertakings by the people. The Party and government give guidance and help within the bounds of possibility and need so that these things can develop and the requirements of the people can be met. At the same time, the portion handed over to the government by the people in the form of taxes ensures a part of the government's needs (for example, grain tax, salt tax and other taxes) and the portion handed over in the form of trade ensures another part of the government's needs (for example, raw cotton, cotton yarn, cotton cloth, wool, etc.). Their basic nature is that of undertakings run by the people. Only in the case of the salt industry, where 40,000 packs of salt are transported and sold under the control of the government's Salt Company and the 5,000 or so packs are consumed directly by government personnel, does a part (about one-seventh of the whole) belong to the public sector of the economy.

As a whole the undertakings of the public Sector of the economy consist of the following three kinds: (1) the salt industry, industry and commerce run by the government; (2) the agriculture, industry and commerce run by the army; and (3) the agriculture, industry and commerce of the official organization of the Party and government. These all directly ensure the supply of the living and other expenses of the Party, government and army personnel. According to accounts for 1942 and the budget for 1943, the amount supplied in this way exceeds the amount handed over by the people in the form of taxes (including the grain tax). Therefore publicly-run economic undertakings have become the greater of the two large sources ensuring financial supplies. Their importance cannot be overstated.

The reasons we pay attention to publicly-run economic construction are both historical and contemporary. During the civil war, the Party Central established some publicly-run industry and commerce in the Jiangxi Soviet in order to meet the need of the war. At that time, we initiated the growing of vegetable and raising of pigs by the various official organizations and schools so as to make up for the lack of provisions. Only the army did not have experience in production. Also, since the peasants of Jiangxi were comparatively rich and numerous, it was not yet necessary for us ourselves to set-to to provide grain. These are historical reasons. Since the War of Resistance began, we have found ourselves in a very special situation. At first the Kuomintang provided a very small amount of ratio for our arms. Subsequently, it cut them off entirely. The Border Region was blockaded, leaving us no alternative, but to become self-supporting in supplying the needs of the War of Resistance. These are contemporary reasons.

After the War of Resistance began, attention was turned to publicly-run economic construction in 1938. Since we could not cover the costs of our army, we began a production movement. However, at that time we only ordered some of the troops to take part in production, growing vegetables, raising pigs, cutting wood, making shoes and so forth on a trial basis. The aim was simply to rely on this as a way of improving the livelihood of the soldiers. We still did not plan to rely on it as a way of providing general finance and supplies. Later we saw how successful the soldiers were in this experiment. They could do a lot of productive work during their rests from training, and their living standards really improved. After this happened there was a reduction in the instances of desertion. On seeing this success, we applied the experience widely among the troops garrisoned in the Border Region. An order was issued from the Garrison Office [liushouchu] calling on the troops to learn from this example. But we still aimed at improving livelihood and not at meeting general needs. At that

time, the government started to pay attention to setting up several small factories but the official organizations and schools were not even called on to grow vegetables and raise pigs. In 1939, the Kuomintang issued the Methods to Restrict the Activities of Alien Parties and relations between the Kuomintang and the Communist Party worsened. The number of official organizations and schools in the Border Region also increased. Although there was a small amount of subsidy for expenses from outside, it was already far from sufficient. We were facing a serious situation in finance and supplies. For these reasons we were forced to devise a movement for all-round mobilization to become economically self-supporting. We then raised the following questions at the congress for cadre mobilization. Do you want to starve to death? Shall we disband? Or shall we set-to ourselves? No one approved of starving to death, and no one approved of disbanding. Let us set-to ourselves — this was our answer. We pointed out this simple principle: in the final analysis, how did ancient man survive if not by getting down to it himself? Why is it that we, the sons and grandsons of these ancient men, do not even have this spark of intelligence? We also pointed out: it is very common for an exploited peasant household in a feudal society with three or four or even seven or eight mouths to feed to rely on the production of only one labour power. Such a family must not only support itself but must also pay 50 to 80 per cent of its income in rent and taxes to others. Why are we not as good as such a family? Our army is made up entirely of labour power, there are no women, no old and young. Nor is there the burden of rent and taxes. How could hunger arise? We have these powerful organs of government. Why cannot they provide their own clothing, food, housing and equipment? We reflected for a while on the reasons why ancient man and today's poor peasant were able to survive, and moreover to live better than wild animals. Without doubt it was because each had a pair of hands, and extended their hands using tools. We again considered ourselves. In fact, each of us has a pair of hands, and we can extend them with tools. This period of reflection was very important. Thereafter our problems were immediately solved. In sum we affirmed that we were able to overcome economic difficulties. Our response to all problems in this respect were the three words 'set-to ourselves'. This time the tasks we set were no longer the same as those of 1938. We no longer wanted merely to improve our livelihood, but also wanted to meet some of our general needs. The scope of mobilization was not limited to the army and we called on all forces, official organizations and schools to carry out production. We implemented a call for a large-scale production movement. The Song of Opening up New Land was a new song from that period, and so was The Production Chorus. This call not only mobilized the several tens of thousands of personnel in the Party, government, army and schools, but also mobilized the common folk of the Border Region. In that year the common folk opened up over 1 million mu of new land. This call also reached all over north China. Many units of the Eighth Route Army at the battlefield also carried out production during breaks in the fighting. This was the first stage of our movement for production self-sufficiency. This stage included the three whole years of 1938, 1939 and 1940. During this stage the government's industrial construction advanced and the army, official organizations and schools developed agricultural production.

From 1941 until this Senior Cadres' Conference (December 1942) has been the second stage. The foundation for self-supporting production had already been firmly laid. During these two years, personnel increased and many people unable to find enough to eat outside came to the Border Region seeking food. The 359 Brigade also came to strengthen defences along the Yellow River. The troops have grown in number and support from outside has completely ceased. There are only two sources for the government's living and operating expenses, the people and the government itself. As a result of two years' hard work the proportion of the total amount coming from the government itself is greater than that coming from the people. Experience during this stage makes us feel grateful to those people who blockaded us. For the blockade as well as having its negative drawbacks also

brought about a positive side, which was to encourage us to be determined to set-to ourselves. As a result, we achieved our goal of overcoming difficulties and trained experience in running economic enterprises. The old saying 'hardship and distress help you to success' is something we have come to understand entirely and consciously.

During the first of the two stages we have gone through, the troops, official organizations and schools placed emphasis on agriculture and the government developed industry. During the second stage we stressed commerce in order to provide for the critical needs of the moment. With the exception of those troops, official organizations and schools which persisted in the policy of putting agriculture in a prime position, the rest developed business skills and did not place such heavy emphasis on agriculture as in the first stage. However, the government, troops, official organizations and schools all developed industry and handicrafts. After this Senior Cadres' Conference, we will enter a new stage of development. In the new stage our economic base will already be rather firm and our experience fairly wide. He should put agriculture in first place, industry, handicrafts, transport and animal husbandry in second place, and commerce in third place. Since commerce can only help in an emergency, we cannot and should not attempt to lay a long-lasting foundation upon it.

Distinctions between the government, the army, and the official organizations and schools in the public sector of the economy can only be made in terms of management and not in terms of an economic nature. Therefore, in the following discussion on self-supporting industry we shall treat the industry run by all three as a whole, and when discussing the self-supporting economy of the army and the official organizations and schools, we shall again look at their industrial production separately. However, since industry run by the government is the largest part of all publicly-run industry (government textile mills produce 56 per cent of the 22,000 bolts of cloth produced annually by all publicly-run textile mills; the output of government paper factories is 70 per cent of all publicly-run paper production; the output of government soap factories is 70 per cent of all Border Region soap production), it is rational to deal with all self-supporting industry alongside that run by the government.

Why should unified, self-supporting industry be run in such a dispersed way? The main reason is that the labour force is divided among the various branches of the Party, government and army. If it were centralized, we would destroy their activism. For example, we encouraged 359 Brigade to set up the Daguang Textile Mill and did not order it to combine with a government mill because most of the several hundred employees at the mill were selected from the officers and men of 359 Brigade. They work to produce the bedding and clothing requirements of the Brigade and their enthusiasm is high. If we centralized, we would destroy this enthusiasm. Another important reason for dispersed operation is that raw materials are in many different locations and this causes transport problems. For example, in order to meet the needs of the Party, government and army personnel of Guanzhong, Longdong, Sanbian, and Suide the bedding and clothing industry finds it best to produce cloth (or buy it) on the spot, and to make it up on the spot. It certainly should not concentrate its making up in Yan'an alone. Thus, we use the activism of the various branches to undertake production to meet their own needs. Adopting the policy of 'dispersed operation' is correct and ideas aimed at centralizing everything are wrong. However, enterprises of the same kind carried out within the same area should be centralized as much as possible. Unlimited dispersal is not profitable. At present we are already carrying out or about to carry out centralization of this kind. One example is the handing over to government control of the Tuanjie Textile Mill of the Central Committee's Central Administration Bureau [Zhonguang Guanliju] and the Jiao-tong Textile Mill of the Rear Services Department [honquinbu]. Perhaps this process of dispersal at first and centralization later

cannot be avoided. Dispersal makes it possible to use the activism of various branches when setting something up, and centralization enables the various branches to get better supplies. But it is very important that dispersed management does not lead to forgetting centralized leadership. This facilitates unified planning, balanced supplies, and essential arrangements in rational management and distribution. Up to now we have had great shortcomings in this respect and they must be corrected in future. To sum up, our policy is 'centralized leadership and dispersed operation'. Not only is industry like this, agriculture and commerce are too.

At this point we must distinguish between two forms of publicly-run agriculture, industry and commerce, the large and the small. Large should be centralized and small should be dispersed. Examples of things for which we should encourage dispersed operation include agricultural work such as growing vegetables, raising pigs, cutting wood and making charcoal, and handicrafts such as shoemaking, knitting, or small mills when both are run by one or more provision units [huoshi danwei] to provide for their own daily food, bedding and clothing needs and to make up deficiencies in running expenses; or cooperatives and small-scale commerce operated to provide from consumption costs or to earn a small profit to cover office expenses. These things must be dispersed, being carried out and developed everywhere. They cannot be centralized and should not be. This is one kind. However, there is another kind. Examples of this are such things as large agricultural plans to provide a definite amount of grain for a whole brigade or regiment of troops — that is the military farming [tun tian] plan; large agricultural stations run to meet the grain and vegetable requirements of many official organizations; large workshops and factories run to provide for the bedding, clothing and daily requirements of a Whole brigade, a regiment, or a large number of official organizations; and large-scale commerce run to meet the operating costs of such large units. All these things must have a unified plan, centralized control, and strict regulation of expenditure. We cannot allow them to lack coordination and operate without restraint. However, agriculture, industry and commerce which should be under centralized leadership must not be put entirely in the hands of one single official organization for the whole Border Region. Instead, the unified plan drawn up by such an official organization (at present the Border Region Finance and Economy Committee and its office) according to the needs of the whole and the parts and the possibilities for operation, is handed over to the Party, government and army systems for separate implementation. Within the Party, government and army systems, there is also a unified plan with division in operation. These are the features of the policy of 'centralized leadership and dispersed operation' in the publicly-run sector of the economy of the Border Region.

In the five years since 1938, the public sector of the economy has made some very great achievements. These achievements are worth treasuring for ourselves and for our nation. That is, we have established a new model for the national economy. The reason that this is a new model is that it is neither the old Bismarkian model of the national economy nor the new Soviet model of the national economy but it is the national economy of the New Democracy or the Three People's Principles.

Our publicly-run, self-supporting industry has not yet reached the stage of supplying fully all our needs. We still cannot talk of using surplus capacity to meet the needs of the people. As yet those needs can only be met by the Party and government providing organizational stimulus and the people setting-to themselves. At present all our efforts are aimed at meeting the needs of self-sufficiency within two or three years, particularly the need for cotton cloth. We must not indulge in the fantasy that in present circumstances we can have tremendous development. That will only do harm.

Below I shall discuss our publicly-run economic undertakings over the past five years item-by-item beginning with self-supporting industry.

We first began to pay attention to the construction of publicly-run industry in 1938. In that year the Border Region successively established the Refugee Textile Mills, the paper factory, the bedding and clothing factory, the agricultural implements factory, and the Eighth Route Army medicine factory. Later on, most of these factories each provided an important stimulus. At this time the industrialist Mr Shen Hong voluntarily moved his ten privately-owned machines to the Border Region to serve the Eighth Route Army, and Mr Shen himself came to the Border Region to work. Thereafter many scientific and technical personnel also came to the Border Region to work, enabling the Border Region to gather a pool of scientific and technical talent as the guiding force in the establishment of industry.

In 1939 the blockade of the Border Region economy began. Imports of industrial products were limited. The Party Central issued the calls to 'set-to ourselves' and to be 'self-reliant'. After the Border Region Government held the agricultural exhibition in January, it held an industrial exhibition on Labour Day, which stimulated enthusiasm to develop industry. The government and the Rear Services Department sent people to Si'an to select and buy machines and materials. They also organized spinning and weaving cooperatives and oil-pressing and tile-making producer cooperatives in Yan'an and Ansai. Although the machines and materials bought from Si'an were insufficient, they became one of the major material strengths in the development of Border Region industry over the past few years. In that year we also set up the Xinghua Chemical Factory and the Guanghua Medicine Factory, and began to explore the thick coal-seams at Shilipu in Yan'an county.

The development of industry in 1940 was carried out under the policy of becoming 'semi-self-sufficient' in production. It was decided to make the development of light industry the key feature. In January we held the second industrial exhibition and reviewed the strength of our factories. The Border Region Bank lent 1 million yuan to expand factory capital, to set up proper factory sites and to continue buying materials. In February the Central Committee put forward the policy of 'centralized leadership and dispersed operation'. In September Commander Zhu promoted the wool-spinning movement and developed some wool-spinning and weaving undertakings. Very many large official organizations and schools and troop units planned actively to set up factories. They sent people to existing factories to study techniques. They studied methods of control and fixed plans for the rapid development of industry in 1941.

In 1941 the Central Committee put forward the policy of 'moving from semi-self-sufficiency to complete self-sufficiency'. Under this policy the Bank increased its loan by 3 million yuan and the government also invested 500,000 yuan in the publicly-run factories. Many official organizations and troop units also set aside funds to establish factories. On the Eight of March Festival [International Woman's Day) we held a production exhibition. In December the large Bank building was completed and we held another industrial exhibition presided over by the Bank. The following list gives the factories set up by the official organizations and schools directly under the Central Committee in 1942 so as to show the efforts made by the various units to develop industry at this time. These industries are all handicraft factories, none large and some very small.

(1) The Xin Zhongguo Textile Mill, the Shiyan Factory, the wooden implements factory, the carpentry factory, the first and second charcoal factories, the tile factory, and the bedding and clothing factory run by the Finance and Economy Office directly under the Central Committee. Total capital over 200,000 yuan. More than 220 employees.

- (2) The Shengli Wool Factory and Shengli Carpentry Factory set up by the Central Organization Department [Zhonguang Zuzhibu].
- (3) The Qiyi Mill set up by the Central Propaganda Department [Zhonguang Xuanchuanbu].
- (4) The Tuanjie Textile Mill set up by the Marxism-Leninism Institute.
- (5) The Sun Yat-sen Textile Mill set up by the Central Party School.
- (6) The blanket factory, mill, alcohol factory, glass factory and machine factory set up by the National Sciences Institute.
- (7) The factories run by the Lu Hsun Academy, the North Shaanxi Public School [shaangong], the Youth League cadres and the Women's University.
- (8) The Xinhua Carpentry Factory and the bedding and clothing factory run by the Central Printing and Publishing Department.
- (9) The Yanyuan Paper Factory run by the instruction brigade [jiaodao dadui].

The above lists twenty-seven factories run by the systems directly controlled by the Central Committee with a total of 447 employees and more than 400,000 yuan capital. Most were set up with the aim of achieving economic self-sufficiency.

These apart, there are several small factories run by the Economic Construction Department [Jingjianbu], the Garrison Office, the Public Security headquarters, the Border Region Finance and Economy Office, 359 Brigade and various special offices. The Daguang Textile Mill of 359 Brigade has a fairly large output. The various regiments of 359 Brigade also have their own small-scale cotton or wool-spinning and weaving workshops.

The industry constructed from 1938 to 1941 is now expanding. Development during 1941 was particularly vigorous and provided a foundation for the work of 1942. However, throughout the period construction was carried out rather blindly. Many personnel lacked conscious awareness. They only thought of the present and not of the future. They only thought of dispersed operation and not of unified leadership. They had an entirely anarchic outlook. As a result, some factories closed down as soon as they were built, some announced they were closing down after a short period of operation and some merged with other factories. Only a portion of them have continued to exist. To take textile enterprises near Yan'an, by 1942 only three large factories, the Refugee, the Jiaotong and the Tuanjie and two small factories, the Xinghua and the Gongyi remained. This winding path could not be avoided at the time, since one can only gain experience from paths that one has already travelled. But having gained experience from this stage, it would be better to avoid following similar winding path in new industrial construction.

In 1942 the Reconstruction Department laid down the policy of consolidating existing publicly-run factories and developing rural handicrafts. Government investment in industry was 1,700,000 yuan. Rural handicrafts run by the people had already greatly expanded before this year. In Suide, for example, there were 600-700 cotton cloth hand-looms. Blanket-making, leather-tanning and ironwork had also developed in other places. The public and private textile industry has developed particularly quickly and it has a lot of problems. In order to ensure the development of the textile industry, we have reduced the import tax on raw cotton and foreign yarn to 1 per cent and increased the import tax on bolts of cloth to 15 percent. In Suide the bank organized the 'the Yongchang Native Cloth Producing and Selling Company' with capital of 2 million yuan. It issues raw cotton and collects yarn and cloth, encouraging the peasant women to spin yarn and weave cloth. Since cloth-weaving

by peasant households has expanded, much of the cloth produced by privately-run, small-scale, capitalist textile production cooperatives can no longer be sold. They also have difficulties with the supply of native yarn. They have no choice but to reduce their scope of operation, or to become fragmented, distributing their equipment among the people and transforming themselves into family subsidiaries. Since publicly-run textile mills chiefly supply for public use, they can maintain themselves. But they also have problems with the supply of raw cotton and yarn. This year the Zhenhua main factory and branch factory of the publicly-run paper industry completed the task of supplying the Publications Office with 3,000 rolls of paper made from malan grass. The Lihua first and second factories originally planned to produce 2,500 rolls but did not succeed. This year's output will not exceed 500 rolls. Other publicly-run paper factories experience great difficulty since there is no market for their paper. The products of the publicly-run woollen industry such as blankets are aimed at solving problems of finance. The government does not use them itself. Some are exported and others are sold to the troops. The fine-spun woollen thread produced is particularly well received and brings a good profit. Beginning in September, the Jiaotong, Xinghua and Tuanjie textile mills, and the first and second Lihua paper factories were all handed over to the control of the Border Region Government from the Central Committee and the Rear Services Department systems. In order to ensure raw materials for spinning and weaving in 1943, we have begun to buy cotton from the three eastern counties this year. We plan to buy 750,000 jin. To ensure the supply of raw materials for paper manufacture, we have raised a levy of 730,000 jin of malan grass from the counties of Ganquan, Yan'an, Ansai, Anding, and so forth. The factories should wait until they have carried out the policy of better workers and simpler administration before dealing with the recruitment of personnel.

The year 1942, and particularly this Senior Cadres' Conference, is an important landmark in beginning to get rid of blindness and anarchy, and for introducing consciousness and unified and planned operation into the whole of the public sector of the Border Region economy, and especially into publicly-run industry. Although the Central Committee put forward the principle of 'centralized leadership and dispersed operation' long ago in February 1940, only in 1942 has it attracted comrades' attention. It has only obtained unanimous acceptance at this Senior Cadres' Conference. Five years of practical experience has made us progress a lot. After this conference, the whole public sector, industry included, must be reorganized so that it develops healthily.

Above I have given a simple outline of the history of industry in the Border Region over the past five years. By December 1942 we have seven kinds of industry: textiles, bedding and clothing, paper, printing, chemical, tools and coal and charcoal. There are seven textile mills with 26,900,000 yuan capital and 1,427 employees; eight bedding, clothing and shoe factories with 1,001,100 yuan capital and 405 employees; twelve paper factories with 4,100,000 yuan capital and 437 employees; three printing factories with 5,200,000 yuan capital and 379 employees; twelve chemical factories (medicine, soap, leather, pottery, petrol, etc.) with 17,030,000 yuan capital and 674 employees; nine tool factories with 3,662,792 yuan capital and 237 employees; and twelve coal and charcoal factories with 1,777,070 yuan capital and 432 employees. The total figures are sixty-two factories with 59,670,962 yuan capital and 3,991 employees. Although our industry is still very small and mainly takes the form of handicrafts with not much machine industry, nevertheless it has taken five years of effort, laid down an initial foundation and played a part in ensuring supplies and regulating commodity prices. Developing from this foundation, it can certainly plan an even greater role.

Our most important self-supporting industries are the textile industry and the bedding and clothing industry. These are what the several tens of thousands of troops and personnel in the official organizations and schools rely upon each year for their cloth, bedding and clothing. Without them we

would be frozen. In 1942 our textile industry was already capable of producing over 22,000 bolts of cloth. However, we needed 40,000-50,000 bolts and we can only reach our goal of self-sufficiency through great efforts. If we want to develop textiles, we must carry out the following policies.

(1) We must raise cotton-cloth import duty and protect native cloth. At the same time, the troops and official organizations and schools must use only native cloth produced in the Border Region.

(2) We must generally encourage peasant women to spin cotton yarn and woollen thread to guarantee supplies of yarn and thread to the factories. At the same time, we can raise the income of the masses.

(3) We must solve problems of supply and distribution. No matter whether publicly-run, privately-run or family subsidiary, the ability to develop is chiefly related to whether problems of supply and distribution can be solved. As regards raw materials, we are still not self-sufficient in raw cotton and cotton yarn, and the sources are not dependable. Since communications are not very good either, there are problems in distribution. We must arrange things so that yarn-spinners can buy raw cotton whenever they want it, and cloth-wavers can buy yarn whenever they want it. As regards finished products, the markets for cotton cloth and woollen products are not stable. We must arrange things so that producers can sell their products at any time; of suitable market-prices. These problems must be solved by the combined strength of the financial organs, commercial organs and the people's cooperatives.

(4) As for problems in the supply of clothing and bedding, we must act according to the methods implemented by the Finance Department in 1942 so as to economize on costs and get clothing at the right time.

Our papermaking industry can already produce over 5,000 rolls of malan paper per year. In 1943 we can increase this to 7,000 rolls, which is entirely sufficient for our printing needs. However, we must (i) unify the production and supply of paper. malan paper is not suitable for general use apart from printing. It cannot be sold if the printing departments do not want it. At present we have the following situation: if the printing factories do not use enough, the paper factories cannot sell and have to stockpile, capital turnover is sluggish and this influences production. In order to solve this contradiction between supply and demand in 1943, we should unify purchase and supply, and make precise economic relationships between particular official organizations and paper factories. (2) We must improve the quality of the paper. With existing equipment and technical conditions, the quality of the paper can be improved at a greater cost in work and raw materials. From the point of view of function and significance, a slightly greater cost is worth-while. On the other hand, we must study improvements in papermaking implements so as to raise production efficiency.

Our printing industry is a modernized cultural tool, and a large quantity of books and papers depend on it. In 1942 printing shops of the Central Committee, Eighth Route Army and Northwest Bureau printed 51,600,000 characters. In 1943 this can be increased to 53,600,000. However, we must increase equipment and ensure the supply of paper.

Our chemical industry includes medicine, soap, leather, pottery, glass, alcohol, matches, petrol and so forth. The Eighth Route Army and Guanghai medicine factories can produce some of the Western and Chinese medicines needed for military and public use, but we are still not entirely self-sufficient. In 1943 we should study the medicinal materials produced in the Border Region, and set up the means for buying raw materials so as to increase the production of necessary medicines. The Xinhua and Daguang factories make soap. Their production increases daily and their quality is good. As well as meeting our own needs, they can sell outside. In 1943 the Xinhua factory can produce 420,000

pieces of soap valued at 7 million yuan. And it has prospects of development. The scale of leather-tanning is small and the cost of materials high. It cannot develop much. If we could use plant materials produced in the Border Region to manufacture leather for military use then there would be some prospect of development. There are three small pottery kilns making pottery for daily and industrial uses. Glass has already been successfully trial-produced and we have decided to set up a factory. We can also make our own alcohol for industrial and medical use. We have still not been able to solve the problem of supply of phosphorous for making matches. We are now investigating the possibility of getting it from animal bones. Apart from these, there is petrol from Yanchang which supplies a little each year for military use. The white wax it contains can be supplied for daily use. In sum, the chemical industry must choose to expand and introduce the supply of things which are urgently needed or are profitable and possible. It should not bother with the rest.

Our tool-manufacturing industry supplies spinning-machinery, weaving-machinery, cotton-bowing and crushing machinery, paper-making equipment, horse-carts, carpenters' tools, agricultural implements and so forth. They are mainly handicraft tools but are extremely important. We must do research into improvements, and provide for expansion.

Our coal industry is concentrated in Yan'an and Guanzhong. Its output is for daily use. Although it is small-scale, it is very important.

The Border Region lacks iron, which impedes the manufacture and improvement of industrial and agricultural tools. At present we are holding trials in Guanzhong and there are hopes of success. If we can make iron, we can solve a major problem of the Border Region.

The above discussion has roughly covered the whole of publicly-run, self-sufficient industry. Textiles, papermaking, bedding and clothing, printing, chemical, tool-making and coal, all have reasonable prospects for development. Their first target is to meet the needs of the army and government, and their second is to supply some of the people's needs. We should make the following improvements in 1943 in order to meet these targets.

(1) Increase capital (the amount to be decided). Each official organization concerned should draw up concrete plans for consideration by the Finance and Economy Office [of the Border Region Government - *caijing Banshichu*] with the aim of investing in each. Of the various industries and in certain investigation and research undertakings, in order to promote the development of self-sufficient industry in a planned way.

(2) Establish a unified leadership for the whole of self-supporting industry, overcome the serious anarchy which exists now; The principle of 'centralized leadership and dispersed operation' put forward earlier is correct but it has not been thoroughly implemented. As a result, there is lack of planning, excessive dispersal in production, lack of work inspection and waste of manpower and materials among the industries run by the Reconstruction Department, the Finance Department, the troops and the official organizations. In 1943 we should set up unified leadership under the Finance and Economy Office and first make all self-supporting industry have a unified plan, no matter which branch it controls. In the unified plan we should calculate as a whole the supplies of raw materials, grain and straw, the totals for production and the coordination of sales. In supplying raw materials we must deal with the problem of many factories facing regular raw-material crises because the region is spread out and these materials are not concentrated, or because supply comes from outside. In supplying grain and hay, we should provide the factories with the grain and hay they need as calculated by the Finance Department so as to save distracting the responsible people at each factory from their concentration on looking after production. In respect of the problems of production and sales, the Finance Department and the official organization concerned should, under

the unified plan of the Finance and Economy Office, give each factory responsibility to produce a definite amount so that whatever is needed is produced in the quantity required and the finished products are accepted by a definite organ at the right time solving the contradiction between production and supply. In the unified plan we must realize mutual aid between enterprises and get rid of departmentalism, which gives rise to independence from each other or even hindrance of each other. We must also realize unified inspection, giving encouragement and criticism so that the poor catch up with the good. In sum, the problem of unified leadership is the central problem in advancing self-supporting industry during 1943. We must make thorough efforts to solve it.

(3) Establish the system of economic accounting [jingji hesuanzhi] overcome the muddled situation within the enterprises. To achieve this, we must do the following. First, each factory unit should have independent capital (liquid and fixed) so that it can handle the capital itself and its production is not frequently hindered through capital problems. Second, income and expenditure in each factory unit should be handled according to fixed regulations and procedures, putting an end to the confused situation where income and expenditure are not clear and procedures are not settled. Third, according to the actual situation in the factories some should adopt the cost-accounting system [chengben kuaijizhi] and some need not for the time being. However, all factories must calculate costs. Fourth, each factory should have regulations for inspecting the rate of progress in completing the annual and monthly plans. They should not let things slide by doing without inspections for long periods. Fifth, each factory should have regulations for economizing on raw materials and looking after tools, and for fostering the practice of doing these things. All these points are the chief elements of the system of economic accounting. Once we have a strict accounting system, we can examine fully whether an enterprise is profitably operated or not.

(4) Improve factory organization and administration, overcome the tendency to build organizations like those of government organs [jiguanhua] and relaxation of discipline. The first thing we must reform is the irrational phenomenon of excessive staffing in factories. At present many of our factories are extremely irrationally organized. There are too many personnel, the organization is too large, the ratio between administrative personnel and those directly involved in production is not right, and systems for administering large factories are being used in our small factories. These phenomena must be quickly corrected so that all factories carry out 'enterprization' [qiyehua]. All factories should shrink or grow according to their economic prosperity. All salaries should be paid from the factories' own profit and not from tax grant, government clothing and government grants. Second, we should implement the ten-hour work system and the progressive piecework wages system [jijian leijin gongzizhi] so as to raise work enthusiasm and increase production. The eight-hour system is something to be implemented in future with the development of large-scale industry. At present we should universally implement the ten-hour system and make employees understand that this is a requirement of the War of Resistance. An egalitarian system of wages destroys the distinction between skilled labour and unskilled labour and the distinction between industriousness and laziness, thus lowering work enthusiasm. We can only stimulate labour enthusiasm and increase the quantity and quality of production by replacing it with a progressive piecework wages system. For the moment industrial production in the army cannot adopt the piecework wages system and should have the piecework incentive system [jijian jiangli zhidu]. Next, we should improve the work of the workers' congress [zhigonghui] and launch a Zhao Zhankui (A model worker) movement in every factory. Work done by the workers' congress which is not suitable for raising labour discipline and activism must be changed. Within a factory, the work of the administration, Party branch and workers' congress must be united towards common ends. These common ends are to save as much as possible on costs (raw materials, tools and other expenses), to make as many and as good products as possible, and to sell them as quickly and as profitably as possible. These tasks of lower

costs, better products and faster sales are the tasks shared by the administration, Party branch and workers' congress, all three of which should unite as one. Working methods which divide their work into three separate areas are entirely wrong. The three sides must organize a unified committee, in the first place to put administrative personnel, administrative work, and production plans on the right track. The task of the Party and the workers' congress is to ensure completion of the production plans. Finally, the factory should reward the workers and employees with the greatest achievements, and criticize or punish workers and employees who commit errors. Without a suitable system of rewards and punishments, we cannot ensure the improvement of labour discipline and labour enthusiasm.

(5) Strengthen and enlarge textile mills, increase output of bolts of cotton cloth, Struggle to achieve complete self-sufficiency in cotton cloth used by the government in 1944. Improve woollen goods and, after supplying the army's needs, increase the amount exported. In the bedding and clothing industry fix standards for the cotton cloth used and the methods of making up. Ensure that cotton garments and bedding can be used for two years.

(6) Put papermaking factories in order, improve the quality of paper. Ensure it is fully satisfactory for printing and office use. Make us entirely self-sufficient in paper for printing and office use in 1944.

(7) Increase production of coal and oil, ensure self-sufficiency and also some exports. Set up ways of making or buying phosphorous so that match-factories can be established. As for other industries, continue with or enlarge those which are urgently needed or profitable. All those which do not match the principle of ensuring supplies or are unprofitable should be merged or closed down.