

Several Relationships Between the Current Financial and Economic Situation and the Economy of New China (December 22-23, 1949)

This is Zhou Enlai's speech to the participants of the National Agricultural Conference, the Steel Conference, and the Navigation Conference.

Zhou Enlai

Comrades:

After the establishment of the Central People's Government, each ministry and commission held a national conference to understand the situation and determine the working principles and plans for the coming period. This was necessary. The general working principles of each ministry and commission were already stipulated in the Common Program, but how to concretize these principles and implement them required the convening of several business conferences. Each ministry is still in its infancy, and it's impossible to immediately grasp the full situation. Understanding is necessary through meetings and field visits. During this meeting in Beijing, in addition to discussing your department's work, you have the right to demand an understanding of overall policy, including the nation's overall political, military, economic, and cultural policies. Only in this way can you understand how your department's work aligns with the overall policy and develop a holistic perspective.

Otherwise, your work will be isolated, lost, and blind. Blindness is not a scientific approach, and it cannot build a new nation. My purpose in speaking to you today is to give you a holistic perspective. Today we will discuss general issues. I believe you have the right to demand that responsible comrades, not only at the Central Committee but also at the local level, provide you with such reports at regular intervals. Some say this is a matter of national importance and must be kept secret, not disclosed casually. Among national affairs, some are secret and some are not, and even within the scope of secrecy, we must treat them differently. I believe that being informed of major national events is essential, and everyone should develop the habit of staying informed. Some people also say that they're busy with work and just need to complete their tasks; there's no need to be informed of major national events. This was the attitude of civil servants in the old society. "Workers in New China should have a sense of responsibility towards their country. Only in this way can thousands of motivated and creative workers emerge."

According to the requirements just mentioned, I will now discuss two issues. The first is the national financial plan. The purpose of discussing the financial plan is to give everyone a holistic perspective. Now, national work has begun to shift from military to construction, and the financial plan reflects some of the government's policies under this situation. For example, the national financial plan shows whether the overall arrangement is centered on military or construction, and whether production is centered on industry or production. Agriculture is the primary sector, and this also reflects the government's policies in various areas, such as culture, education, and diplomacy. Secondly, there are the various relationship issues in the new Chinese economy. Managing these relationships is also a work issue. Doing a good job depends on handling these relationships well, which reveals the focus of the work.

The National Financial and Economic Plan

The 1950 National Budget Estimates, approved by the Central People's Government Committee, are for a one-year plan. Why is it only for a one-year plan?

Because we are still in a state of war, and areas near Chengdu, Tibet, Taiwan, Hainan Island, and other places have not yet been liberated. Under these circumstances, it is not possible to formulate a multi-year plan. Even this one-year plan is only a rough outline and not very precise. It must be constantly revised during implementation to achieve accuracy. It is impossible and impractical to demand a precise plan all at once. At this time and place in China, this rough outline is the only plan we can achieve. It is scientific and reasonable. Even your business plans can only be formulated in this way.

What viewpoints and reasons are behind the formulation of the National Financial and Economic Plan?

I would like to discuss four points.

1) Bearing the Burden.

For national victory, the people are required to bear the necessary burdens. I call this burden the "victory burden." The War of Liberation has already achieved basic victory. Only areas near Chengdu, Tibet, Taiwan, and Hainan Island remain to be liberated. Only with the liberation of these areas can we achieve complete victory. Therefore, military preparations must be made, not only for the army but also for the navy and air force. Consequently, military expenditures will continue to account for a significant proportion of fiscal expenditures. The number of troops must also be increased. Currently, there are 4.7 million troops, but since we need to take on the Kuomintang troops that have been captured or reorganized, we estimate that this number will reach a peak of 5.5 million next year.

As everyone knows, since last year, and especially this year, we've taken over most of the Kuomintang troops we captured or reorganized. After the liberation of Beijing, we sent hundreds of Kuomintang officers home, but after the liberation of Suiyuan, we encountered them again. Now there's no place to send the Kuomintang officers and soldiers. If we ignore them, it will affect public order, so we have to take care of them, both military and civilian. Some time ago, Shanghai implemented a policy of streamlining the military and government, resulting in personnel cuts, which caused unrest in both Shanghai and Nanjing and attracted the attention of the government. Solving their food problem was a critical issue. According to their request, we shared the food for three people with five, and we took over their entire camp. Thus, the number of public servants and teachers nationwide will increase from the current 2 million to 3.5 million. The total number of civil and military personnel will be 9 million. The increase in the number of people dependent on the government will have to be borne by the people, which is a major undertaking. However, solving the food problem for these 9 million people will benefit the country's production and construction. We must tell the people that this is a burden of victory and cannot be shirked. The several million people entrusted with these tasks are not useless; we must be determined to transform them into a productive force. We can say this with confidence. We implemented this policy during the War of Resistance Against Japanese Aggression, and now we are beginning to do so nationwide. Comrade Mao Zedong has an opinion on military production: *First, develop agricultural and handicraft production. Industrial production, military equipment, and so on can also be developed. We believe that by doing so, we will achieve significant results in two or three years. Currently, we do not need 3.5 million civil servants. We must prepare them so that, in addition to performing their professional duties, they also participate in production and study, becoming people who are both adaptable to the demands of the job and possess a strong labor perspective and scientific knowledge, becoming the revolutionary workers needed by the new China. Governments at all levels must do a good job in this work. There are too many government employees now. In the future, not all of them will necessarily work in government agencies; some can transfer to businesses.

2) Restore production.

The country faces a heavy burden next year, and we cannot afford to neglect production. Comrade Mao Zedong said, "As the army advances, production grows." Q: If we don't focus on production now, how can we support the war effort and consolidate victory? Production is the fundamental task of our new China. The current focus of our production task is restoration, not development. However, this does not exclude possible and necessary development. Before the Anti-Japanese War, the nation's highest annual grain output was 280 billion tonnes. This year's output is approximately 20 percent lower than then. "Next year's plan calls for an increase of 10 billion tonnes, but it's still a long way from 280 billion tonnes." The same is true for cotton production. Overall, all aspects currently need to be restored first, and then developed on this basis. Comrade Mao Zedong once said that recovery takes three to five years, and development takes ten to eight years. If we can reach or exceed pre-war levels within three to five years, that would be excellent. The recovery of agriculture is the foundation for the recovery of all sectors. Without food, nothing else can be achieved. The raw materials and exports of light industry now largely depend on agriculture. National budget funds, excluding military and administrative expenditures, are primarily used to restore production. Only after production is restored can millions of people be transferred to enterprises.

(3) Increase revenue and reduce expenditure.

This is a commonplace, but it does make sense. Only when fiscal revenue increases can expenditures increase and deficits be reduced. Our revenues primarily rely on the people: first, the burden from rural areas; second, the burden from urban areas; third, the revenue from state-owned enterprises; and fourth, advances, or borrowing. Let's first discuss the burden on rural areas. In the past, our old liberated areas were burdened quite heavily. This burden has endured for quite a long time, from the beginning of the Anti-Japanese War to the present, for twelve years without a respite. Now, national victory is imminent. So, can the burden on the old liberated areas be reduced? This demand is reasonable, but it cannot be realized immediately.

Because the war was still ongoing, everything in the newly liberated areas hadn't been organized yet, land reform hadn't yet begun, and tax collection hadn't been completed. Therefore, the burden on the older liberated areas remained higher and couldn't be reduced. We've developed a ratio based on our experience since the War of Resistance: the burden on farmers is higher in Northeast China, lower in Northwest China, and moderate in North China. The average annual per capita income in rural areas is about 400 taels of grain, of which 80 taels goes to the government. Based on the military's annual per capita grain expenditure of 4,000 taels, every 100 farmers can support two government employees. If this ratio is met, it's perfect; if it exceeds, it becomes more difficult. We've maintained this ratio for twelve years. For a considerable period in the future, farmers will likely still have to pay around 20 percent of their income as a burden. This fact also demonstrates the greatness of Chinese farmers. The burden on cities is taxes. In the past, almost the entire burden fell on the countryside. Now, the situation has changed, and the burden must also fall on cities, as well as on industry and commerce. However, the initial burden on cities cannot be raised too high; it should be slightly less than that on rural areas. Currently, the rural burden accounts for 41.4 percent of national fiscal revenue, while the urban burden accounts for 38.9 percent. In reality, many taxes, such as the salt tax, commodity tax, and slaughter tax, still have to be passed on to farmers. It's wrong to demand that cities shoulder a heavy burden at present, but urban workers should persuade businesspeople to pay their fair share.

State-owned enterprise revenue accounts for 17.1% of fiscal revenue.

The above three types of revenue are not enough; there will be gaps, which requires public debt.

In 1955, 82% of the total budget expenditure came from various sources, 7% from government bonds, and the remainder from currency issuance. This will help overcome the difficulties that will arise in the face of victory next year. Is it possible to borrow foreign debt? We need foreign aid. We welcome assistance from friendly countries because it is sincere.

But China's development should primarily rely on self-reliance.

In terms of expenditure, the national financial plan is economical.

First, military spending accounts for 38.8 percent of the total budget.

Army expenditures are only 4,000 taels of grain per person per year, totaling 21 billion taels.

This excludes the costs of building the navy and air force.

Second, administrative expenses account for 21.4 percent. Our administrative expenditures are not large. Under the supply system, the average annual per capita grain expenditure is 1,800 to 2,000 taels, while under the salary system, the average annual per capita grain expenditure is 4,200 taels. At this point, it is not possible to switch from the supply system to the salary system, and those previously on the salary system cannot switch to the supply system either. Comparing the two, there is an inequality in income, but we cannot help but ask those implementing the supply system to be more patient. The government is aware of their family difficulties and is working to address some of the difficulties that must be addressed.

Third, economic construction and cultural and educational expenditures account for approximately 30% of the budget. First, state-owned enterprise investment; second, cultural and educational construction; and third, local construction. The first item accounts for 23.9%.

Fourth, the total reserve fund accounts for approximately 10%* and is used for emergency situations such as disaster relief.

From the perspective of budget allocation, expenditures are primarily used to support the war and liberate China, followed by construction and the restoration of production. Total fiscal expenditure on grain was less than 60 billion tonnes, indicating that we were frugal and our living standards were low. The Chinese nation has a tradition of diligence and courage, and our Party has a revolutionary tradition of hard work and struggle. When we began building New China, we required all workers to maintain and carry forward this tradition.

(4) Mastering Policy.

We must master policy and carry out our work within the general direction outlined above. This is the only way to avoid independence among departments. We must attach importance to heavy industry, but we must never treat it as the only industry.

Among heavy industries, steel holds the top spot, but it is not the entire heavy industry.

In agriculture, water conservancy and agricultural production should be given equal priority, and water conservancy should be coordinated with agriculture. In transportation, the restoration of railways is the most important and has been the fastest. The target for restoration this year is 18,000 kilometers, which has already been exceeded by 2,000 kilometers. Next year, all of it will be restored, and some new lines can be built. Restoration of highways, shipping, and other areas should be prioritized.

Each unit must have a holistic perspective, identify its position within the overall financial plan, understand its direction, and restore and develop production in a focused and planned manner. This is the only way to avoid departmentalism, avoid relying solely on the state, and achieve the greatest possible results within its respective areas.

Several Relationship Issues

Now let's discuss six relationships: urban-rural relations, domestic-external relations, and industry-commerce relations. Public-private relations, labor-capital relations, and superior-subordinate relations.

(1) Urban-rural relations

In China, urban-rural relations are a crucial relationship. On the one hand, the Chinese revolution must be led by the working class. On the other hand, for the revolution to succeed, it must rely on the peasant class and the vast countryside. To completely liberate the cities, we must rely on the vast rural areas to establish revolutionary bases. We must organize and accumulate strength, launch armed struggle, encircle the cities with the countryside, seize enemy positions piece by piece, and ultimately liberate the cities. Then, we can use the cities to lead the countryside, restore and develop production, and carry out construction. This dialectical approach to the relationship between urban and rural areas in my country is one of Comrade Mao Zedong's most successful examples of how he applied Marxism-Leninism to solve revolutionary problems in my country.

Regarding the question of who leads whom, today we have established the policy of cities leading the countryside and industry leading agriculture. Cities lead the countryside, and industry leads agriculture. This is true in capitalist society and even more so in socialist society. Regarding the composition of our national economy, agriculture and handicrafts account for approximately 90 percent, while modern industry accounts for about 10 percent. The countryside is more important, while the cities are less so. However, this does not mean that the role of cities leading the countryside and industry leading agriculture should be eliminated or weakened. The urban demand for food and industrial raw materials stimulates agricultural production in rural areas, and cities guarantee and promote rural agricultural production by providing consumer goods and means of production.

Since it is the centralized cities that lead the dispersed countryside, and industry that leads agriculture, does this mean that we can abandon agriculture as a foundation and neglect the countryside? No. Under no circumstances can we eliminate or ignore the countryside, the vast agricultural foundation. Cities and rural areas, industry and agriculture, are dialectical aspects; neither can be eliminated or neglected. Our emphasis on cities leading the countryside and industry leading agriculture does not mean that we should ignore the role of large-scale agricultural production in developing industry. Without the extensive development of agriculture, industrial development is impossible. The current task is first to restore agriculture and then further develop agricultural production. Next year, we plan to increase grain production by 10 billion tonnes. After three to five years of hard work, we can restore annual output to the pre-war peak of 280 billion tonnes. This will increase the purchasing power of 400 million farmers, increasing their demand for industrial products and their supply of industrial raw materials. This will allow us to restore and develop industrial production on the basis of restoring and developing agriculture. This year, national cotton production was over 8 million dan, and we plan to increase this to 13 million dan next year.

Without these 13 million dan of cotton, one million spindles would have to stop spinning. Without food, the people in the cities would not be able to survive.

The food and clothing needs of the 10 million people in Beijing, Tianjin, and Shanghai all depend on the countryside. Cities cannot live without the countryside and must rely on it; industry cannot live without agriculture and must be based on it. Regarding the relationship between urban and rural areas, we must guard against two biases. Cadres from the rural areas of the former Liberation Areas have extensive experience in rural production and understand how to organize agricultural labor. However, this does not mean that agriculture is the priority and we should neglect industry, denying or ignoring the role of cities in leading the countryside and industry in leading agriculture. Failure to prevent and correct this bias will lead to mistakes. Agriculture cannot be the priority; it must develop under the leadership of industry. Only by organizing urban industry and allowing it to play a leading role can we modernize and mechanize agriculture. The Second Plenary Session of the Seventh Central Committee of the Party decided that the focus of Party work should shift to cities, with primary efforts placed in cities to restore and develop industry in order to promote the recovery and development of agriculture. At the same time, we must guard against another bias: comrades working in cities should not neglect agriculture and the countryside because industry leads agriculture and cities lead the countryside. Farmers account for over 80 percent of China's population, and agriculture and handicrafts make up approximately 90 percent of the national economy. Industrial production must take into account the needs of the countryside. For example, when building a railway, the primary consideration should be its role in promoting urban-rural exchange and the exchange of industrial and agricultural products. Anyone who neglects farmers and agriculture will make mistakes. We must develop industry on the basis of agricultural development and raise the level of agricultural production under the leadership of industry. Without an agricultural foundation, industry cannot advance, and without industrial leadership, agriculture cannot develop. This dialectically correct approach is the application of Mao Zedong Thought to the relationship between industry and agriculture and between urban and rural areas.

(2) Internal and External Relations.

Should national construction be based primarily on domestic forces or foreign aid?

Our answer is that it should be based primarily on domestic forces, that is, on self-reliance. Small countries should do this, and a large country with a population of 450 million should do this even more. There is no doubt that we must be self-reliant in production and construction, and independent and sovereign in politics. The blockade imposed by U.S. imperialism has brought us great difficulties, but we must never yield to U.S. imperialism because of this. Not only must we endure these difficulties, but precisely because of this blockade and bombing, we are forced to think of more ways to build our country. After 109 years of struggle, with the sacrifice of countless patriots and countless setbacks and failures, the Chinese people have finally triumphed. We have ways to deal with the current situation. We must face the challenges head-on. "No matter how difficult it is, we will prosper our nation." Imperialism's refusal to trade with us is not a terrible thing. In the past, they invaded us, turning our country into a colony and semi-colony. The people could no longer survive, and that's when the revolution began. Of course, we can't rely on them now. Furthermore, China didn't do much trade with them in the past. Before the Anti-Japanese War, it was only a few hundred million yuan per year, and during the war, it was only a few tens of millions. Now, we can trade with imperialist countries under favorable conditions. We don't reject this, nor do we force it. We must break the mindset of dependence on imperialism. This mindset has been formed over the past century and is deeply rooted among some people. Old China was not... However, we are also dependent on imperialism in terms of economy and culture and education. Not only are we being

exploited economically, but our minds are also being poisoned. This is extremely dangerous. We must now eliminate and eradicate these toxins. We should neither rely on them nor fear them. Only in this way can the foundation of self-reliance be consolidated. We can obtain most of our supplies ourselves, and some from our friends. We must never rely on our enemies. Moreover, we can find favorable markets for our supplies. Next year, we will increase grain production by 10 billion tons and cotton by over 4 million dan.

Increased grain production can increase exports and earn foreign exchange. Increased cotton production can reduce imports and reduce foreign exchange expenditures. We welcome assistance from friendly nations on the basis of equality and mutual assistance. This kind of genuine help will contribute to our self-reliance.

(3) Industry-Commerce Relations

When comparing industry and commerce, industry is naturally the primary sector. So, should cities where commerce predominates prioritize commerce? No, they should also prioritize the development of industry. The state primarily manages heavy industry. Our state-owned and cooperative businesses primarily serve the circulation of industrial and agricultural products and the people. Speculation must be prevented. Regarding private capital, we should encourage and support its development of industrial production. Private businesses can also be assisted when absolutely necessary. Before liberation, urban production was almost completely destroyed, leaving only commercial speculation. This situation must be changed.

(4) Public-Private Relations

In order to restore and develop the national economy, New Democracy China needs the assistance and cooperation of private capital. In addition to state-owned enterprises, private enterprises are also allowed to exist and develop. The Common Program embodies Comrade Mao Zedong's principle of "giving equal consideration to public and private interests." "The issue of private capital must be resolved in the process of our transition to a socialist society." In the public-private relationship, the public sector should be prioritized. The state-owned economy should be the leading component. Although it currently accounts for only 5 percent of the national economy, it is a socialist economy, and its leadership can ensure China's progress toward socialism. All enterprises that are of vital importance to the national economy and people's livelihood and should not be controlled by private individuals must be state-run. The Kuomintang government once used bureaucratic capital to monopolize the national economy. This bureaucratic capitalism... Bureaucratic capital not only enslaves the people but also stifles the development of the private economy. It should be confiscated.

On the other hand, bureaucratic capitalist monopolies have led to the continuous concentration of many large enterprises, paving the way for centralized production in our country. Thus, certain aspects of the old society, once in the hands of the people, immediately became active forces.

To continuously increase the proportion of the state economy and ensure its leadership, the government allocates 23.9 percent of its budget to the state economy.

Since public ownership is paramount, does this mean that private enterprises will be left alone? No, of course they will be. Currently, half of all industry is privately owned, which greatly contributes to the country's economic development. When private enterprises that contribute to national economy and people's livelihood encounter difficulties, the government will assist them. State-owned enterprises should take the lead, ensuring that private enterprises contribute to the development of

our country's production. We allow private capitalist enterprises to exist, but we must guide them away from the path of old capitalism and towards the path of new democracy. It will take a considerable period of time for our country to move toward socialism in a sound, orderly, and unhurried manner.

(5) Labor-Capital Relations

This problem doesn't exist in state-owned enterprises, but it does exist in private enterprises. Comrade Mao Zedong established the principle of "benefiting both labor and capital" on this issue. However, this does not equate labor and capital. The people's state is led by the working class. In labor-capital relations, we must adopt a policy that protects labor while also allowing capital appropriate profits. We adopt a restrictive policy toward private capital, encouraging private enterprises that benefit the national economy and people's livelihoods and prohibiting those that are harmful. We also have two conditions for private capital to earn profits. First, illegal profits are prohibited; only legal profits are permitted. Second, excessive profits are prohibited; only reasonable profits are permitted.

Workers should not demand excessively high wages for the sake of immediate gains. Doing so would render the capitalists unable to operate, leading to the collapse of their businesses and ultimately leaving themselves unemployed. We should not sacrifice long-term interests for the sake of short-term gains. Workers should be required to work an eight-hour shift, but currently, they are generally required to work more than eight to ten hours. Workers' living standards should be adapted to China's current conditions. The main issue today is to ensure unemployment and hunger. Working conditions cannot be improved overnight; they can only be improved gradually. The working class should strive for production with a spirit of self-sacrifice. We must protect labor and restrict capital on the basis of developing production.

(VI) Superior-Lower Relationships

The superior-local relationship here refers to the relationship between the central government and local governments. Under current circumstances, we cannot yet achieve complete centralization and unification, but neither do we allow each region to govern on its own. We practice democratic centralism, not feudal separatism. The Common Program stipulates that this approach should be conducive to both national unity and adapting to local conditions. For example, regarding steel production, unified arrangements should be made for all steel-producing regions in terms of industrial investment, mineral production, and sales. Cotton production plans must also be formulated based on local conditions. Navigation plans must also take into account all aspects, avoiding localism and hindering local initiative. Comrade Mao Zedong, in leading the Chinese Revolutionary War, maintained a firm grasp of strategic leadership, leaving the organization of campaigns and the application of tactics to the lower levels, as they best understood the specific conditions. Only by fully mobilizing the initiative and creativity of cadres and the masses can victory be achieved. This applies to both warfare and construction. The people's creativity is boundless. Only by mobilizing the initiative of local governments under the unified leadership of the Central Committee can work in all areas be vibrant; otherwise, it would be stagnant. Only when the broad masses of people exercise initiative and creativity in production can their material and cultural living standards be improved, and bureaucracy can be more effectively overcome.

The six relationships described above are encountered by every department, especially production. Correctly addressing these six relationships is essential to avoiding departmentalism, maintaining a holistic perspective, ensuring that departmental production occupies an appropriate position within the unified plan, and ensuring that all plans are focused and accurately implemented.