

EXPLANATORY REMARKS ON THE FIRST FIVE-YEAR PLAN

June 30, 1954

The First Five-Year Plan has gone through five drafts since 1951.¹⁵¹ The first three were prepared by the Central Financial and Economic Commission⁷ and the fourth by the State Planning Commission. I have been in charge of preparation of the fifth, and we have been working on it since last March.

In this latest revision, the part concerning the state sector is based on sound calculations. Some other parts, however, are by no means reliable, such as those concerning agriculture, handicraft industry, and capitalist industry and commerce, which together make up a very large portion of the economy. These parts can only serve as “indirect planning”.¹⁵² Because we have little experience in this area and because there are not enough data to rely on, the figures in these sections of the plan can only be tentative and subject to revision in practice.

Now that the First Five-Year Plan has been in effect for a year and a half, I should like to discuss a few aspects of it.

I. AN ESTIMATE OF THE PROBABLE RESULTS OF IMPLEMENTATION OF THE PLAN

Industrial production. Total output value of industry (including handicraft industry) is expected to increase by 15.5 per cent a year and possibly more.¹⁵³ However, the output of certain major products, such as steel and cotton yarn, will not surpass their targets, and the output of some other products will probably not even reach theirs. The increase in total industrial output value during the period of the First Five-Year Plan will have to be

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achieved mainly by existing factories and new ones that we ourselves design. Only a few of the 141 projects that the Soviet Union is helping us design and build will actually go into production during this period, and they will provide only 4 to 6 per cent of the total output value.¹⁵⁴ Most of these projects will be put into operation only during the period of the second five-year plan and some not until the third. Those of the newly built factories and mines, including these 141 projects, that will go into operation during the period of the present plan will contribute only about 25 per cent of the total industrial output value, while about 75 per cent will come from facilities built before 1949.

Capital construction in industry. The plan envisages construction of 615 above-norm projects (maybe more).¹⁵⁵ Some of these, including the 141 Soviet-aided ones, may be subject to delays. The main reasons for this are that we don't have enough technicians in China, available data are not reliable and we need more time to translate material from Russian. In addition, there are many problems in getting deliveries from the Soviet Union, so we may not receive complete sets of equipment on time. As a result, construction of certain projects may often have to be suspended. At the same time, factories all over the country are already contributing to large projects such as the Anshan Iron and Steel Works and the Changchun Automobile Plant, and when construction of all the 141 projects begins, the country's resources will be stretched even thinner. Large-scale capital construction will begin in 1956 and 1957, and then we shall have a hard time. We shall inevitably encounter many difficulties. In particular, there will be a serious shortage of cadres at the lower level, and it will take time for the cadres to gain experience. While we must try to finish the 615 above-norm projects as scheduled, we should prepare for the possibility that some will not be completed on time. If we see that is going to happen, we should make an announcement to that effect, specifying which projects are involved.

Agricultural production. During the period of the First Five-Year Plan, total output value of agriculture will have to increase by five per cent a year, which will mean an overall increase of 28 per cent in 1957 as compared with 1952.¹⁵⁶ We expect to achieve this increase mainly by raising per-unit yields, not by bringing wasteland under cultivation. We should anticipate that grain production will increase slowly. In the 38 years between 1913 and 1950, per-unit yields in the Soviet Union increased by only 41 per cent. It will be hard for us to fulfil the agricultural plan, which will mainly depend on the cooperative transformation of agriculture.

Railway transportation. This will undoubtedly be difficult. If the output of manufactured goods exceeds the planned targets in certain areas, some

sections of the railways will not be able to handle the load. We should therefore plan to increase investment in the railways every year, so as to expand and improve certain sections.

Socialist transformation. The plan to transform agriculture, handicraft industry, and capitalist industry and commerce can be fulfilled and possibly exceeded.

In short, the weakest part of the plan is agricultural production, and it is hard to say whether we shall reach the targets in that area. In industrial production we can reach our goals, in capital construction we can probably come close, in railroad transportation we shall have difficulty fulfilling the plan, and socialist transformation can be accomplished according to schedule.

II. PROPORTIONATE DEVELOPMENT

1. *The proportion between agriculture and industry.*

Even if the plan for agricultural production is fulfilled, there will still be barely enough grain to meet the growing needs of the urban population and the increasing demand of industrial production. Within the five-year period the amount that can be added to the grain already in storage will be only 12.75 million tons. At the end of June 1953 we had 9.75 million tons of grain on hand. This means that by the end of 1957 we shall have a total of only 22.5 million tons—and that includes the grain that is being processed or in transit. Since we sold 4 million tons of grain in May alone, we can calculate that in the event of a crop failure, the grain in storage would supply the country for only five or six months.

There will not be much increase in the supply of cooking oil over the five-year period. If each person were to receive just an additional half kg. of oil a year, the national total would be 300 million kg. To produce that much, we would have to devote an additional 20 million *mu* [1 *mu* = 1/15 hectare] of land to oil-yielding crops, and it would be hard for us to do that.

To fulfil the plan for cotton production, the average yield must reach 19 kg. per *mu*. Although it may be possible to attain that yield in north China, it will be hard to raise the current national average of only 15 kg. per *mu* to 19 kg. But if we were to devote more land to cotton, that would mean reducing the areas planted to sorghum, corn and millet, and that would create problems in the supply of fuel and animal feed. If the output of cotton does not reach the figure projected in the plan, we shall have even greater problems in meeting demand than we do now.

There are three ways to increase agricultural output: 1) by bringing wasteland under cultivation, 2) by building more water conservancy projects, and 3) by organizing cooperatives. We must make use of all three, but the most effective way at present is to organize cooperatives.

1) *Bringing wasteland under cultivation.* If we could reclaim 500 million *mu* of land, they would yield 40 to 50 million tons of grain. But it would be hard for us to do that even in ten years, since we do not have the necessary farm machinery. To reclaim 500 million *mu* of land we would need to have about 250,000 tractors, and to run the tractors we would need to refine more than 10 million tons of crude oil into diesel oil. However, we shall not have even 100,000 tractors until we are in the period of the second five-year plan, and it will also take time to find that much crude oil. We can only open more wasteland on large tracts with small populations, and that requires machinery. To reclaim land in Xinjiang, we would have to build about 4,000 km. of railway lines and water conservancy projects costing about 1 million yuan² per *mu*. We do not have adequate resources for either. Would it be possible, then, just to open 50 million *mu* more than we planned? I think even that would be difficult. First, because it would require an additional investment of ¥25 trillion for organizing state farms; second, because we would have to import 30,000 tractors; and third, because we would have to send a large number of trained personnel to Xinjiang to do surveying for projects. In addition, we would have to build highways, railways and housing and send a workforce of 700,000 people there to do the farming. And after we had spent these enormous resources, we should still be able to increase the amount of grain by only 4 to 5 million tons a year. During this five-year period, therefore, the chief benefit to be gained from bringing wasteland under cultivation and mechanizing farms will be the experience and training provided to our cadres.

2) *Building water conservancy projects.* Large water conservancy projects are needed mostly in the northern part of the country. If all the water north of the Huaihe River were harnessed, 10.6 million hectares of land could be irrigated, which would enable us to increase grain production by 10 million tons. These would be very large projects, and it would take at least ten years to build them. Moreover, in relation to overall national needs, that amount of grain is not large.

3) *Organizing cooperatives.* According to past experience, average yields can be increased 15 to 30 per cent through the organization of cooperatives. Increasing the yields 30 per cent would mean an additional 50 million tons of grain. Furthermore, only by organizing cooperatives can we make the best use of other ways to increase agricultural output.

Organizing cooperatives is therefore the way that will cost the least and produce the fastest results. The state should provide more financial support for this endeavour.

Is the investment in agriculture too small and should we increase it? During the five-year period the investment in agriculture (including forestry and water conservancy projects) was originally supposed to be ¥49 trillion, which represents 9.5 per cent of the total expenditure for economic development.¹⁵⁷ It should be pointed out, however, that the latest draft plan provides for additional direct and indirect investment in the following items: water conservancy projects for local agriculture, ¥5 trillion; expenses for land reclamation to be carried out by the army, ¥5 trillion; rural disaster relief, ¥15 trillion; projects for harnessing the Yellow River, possibly ¥5 trillion; and long-term agricultural loans, ¥10 trillion. These items total ¥40 trillion. If we add to this the original investment in agriculture projected in the plan, the sum would represent not a mere 9.5 per cent of the expenditure for economic development but more than 15 per cent, which is no small amount. Insofar as possible, we should plan to allocate more funds to agriculture, trying to increase our investment in it every year.

2. The proportion between light and heavy industry.

It is stipulated in the First Five-Year Plan that the ratio of investment in light industry to investment in heavy industry should be 1:7.3, that is, they should represent respectively 12 and 88 per cent of the total.¹⁵⁸ However, what is holding back the expansion of light industry is not a lack of investment but a lack of raw materials. Some of these materials, such as cotton, oil-yielding crops, sugar beets and sugar cane, come from agriculture, while others, such as thin steel plate, aluminium and chemicals, come from heavy industry. Increasing the investment in light industry will not be much use until large quantities of these raw materials can be produced. As long as there is a shortage of raw materials, there is no point in opening new factories. Light industry still has a great deal of idle capacity, and equipment is not being used efficiently, so even a slight readjustment would help increase production considerably.

Light industry has great potential for development, not only in terms of idle capacity but also in terms of sources of capital. In addition to allocations from the state budget, investment may come from joint state-private enterprises, private enterprises and localities, and floating funds in society may also be attracted. If there is an urgent demand for certain products of light industry, new factories can be built easily and quickly. A cotton mill with fifty thousand spindles could be built in only a year and a half.

Therefore, we should maintain the current ratio of investment in light industry to investment in heavy industry.

3. The relations between the different sectors of heavy industry.

According to the First Five-Year Plan, the national defence industry is to receive a very large share of total investment. But to expand the national defence industry, we must also expand many civilian industries, and that will be difficult. Actually, many civilian factories have already been built to serve national defence, such as some special steel works, chemical plants, etc. The reason for this is that, unlike certain foreign countries that have built their national defence industries on the basis of well-developed civilian industries, China has a weak and backward industrial foundation, yet our national defence industry has to be developed rapidly. Under these circumstances we have no choice but to give priority to national defence. Working to accelerate the development of the national defence industry and to catch up with foreign countries in that area will also help to raise the technological level of China's industry as a whole.

The petroleum industry will not develop fast enough to meet demand. There will be a shortage of petroleum not only throughout the period of the First Five-Year Plan but throughout the period of the second as well. The problem now is to find more oilfields. When we discover a new, promising site, we must work hard to develop it.

In short, the main problems in heavy industry are: disproportionate funding for the defence industry, the backwardness of the petroleum industry and the shortage of coal and electricity. At present, there is no way we can change this situation.

4. The relations between industrial development and railway transportation.

Railway transportation will be inadequate for some time to come. We are not investing enough in it. In our successive plans for investment in this area, the amount of new track to be laid grows smaller and smaller, while the amount of old track to be repaired grows larger and larger. The 10,000 km. of new track originally projected in the First Five-Year Plan was reduced first to 6,000 and then to just 3,000. Because many factories and mines are being built near old lines, the freight load on those lines will get increasingly heavy as industry develops. At the same time, the cost of laying new track was underestimated. Originally each kilometer was calculated at ¥3.9 billion, but the current cost has actually reached ¥6.2 billion, so we have no choice but to reduce the total length of track to be built.

For the present, while preparing to build new lines, we should concentrate on meeting the needs of the 141 projects and on expanding freight capacity on existing lines. To fulfil the tasks set in the First Five-Year Plan,

we must increase investment every year, if necessary. The Ministry of Railways should make plans now to build extra lines that would cost ¥10 trillion in addition to the allocations it receives under the First Five-Year Plan, so that construction can proceed whenever money is available.

5. The shortage of technicians.

According to preliminary estimates, industrial and transportation projects in the First Five-Year Plan will require 395,000 technicians, but only 286,000 will graduate from universities, colleges and secondary technical schools—nearly 110,000 fewer than are needed. Naturally, a shortage of technicians will hamper construction of projects and lower the quantity and quality of products. It will be hard to solve this problem within ten years. We cannot postpone construction until we have enough technicians, and simply increasing investment will not make them available. There is also an insufficient number of college professors and students. One way to solve this problem is to have factories run more technical schools and training courses to produce skilled workers. In short, the pressing need to train cadres will be the most difficult problem we face in carrying out the First Five-Year Plan.

As I stated earlier, the development of the various sectors is not always proportionate, but for the time being we can only proceed in the ways I have described.

We must comply with the rule of proportionate development, but the specific proportions for different sectors of production will necessarily vary from one country to another and even from one period to another. Each country must determine the proper proportions in its plan, in accordance with its current economic conditions. It is hard to determine what those proportions should be. The only way is to see if the plan is indeed balanced. If it is balanced, development will be proportionate.

Because the economy is backward and because we have to catch up with other countries in a short period of time, it will be hard to maintain the balance between the various sectors in the plan. One of them must be given priority. In the short term this means industry, especially heavy industry. As industry develops, the other sectors have to expand. Under these circumstances, it will be hard to maintain a balance. We cannot afford generous funding in all areas and besides, if we try to do everything all at once, in all sectors, we won't achieve rapid growth in any of them. But while it may be hard to maintain the correct balance, we must never abandon the goal of proportionate development. Even though the budget is tight, we must try to maintain a rough balance between the various sectors.

III. MEASURES FOR CONTROLLING REVENUE AND EXPENDITURE

Can revenue be increased during this five-year period? I think that certain items, such as profits and taxes from enterprises, may rise but there will probably not be any great increase in overall income. If we raised taxes by ¥40 or 50 trillion, that would cause a rise in prices and a drop in real wages. So we cannot do that.

Can we cut administrative and military expenses any further? It would be difficult to cut administrative expenses in the next three years, because we cannot dismiss large numbers of government personnel. And if we want to cut military expenses, we must either reduce the number of troops or slow down the modernization of the army. I do not think we can plan to do that in these first five years.

Can we reduce investment in industry? Since we have decided to launch the 141 projects and must not delay doing so, we cannot reduce expenditures in this area either. Except for the 141, the industrial projects initiated by the First and Second Ministries of the Machine-building Industry involve only small investment.¹⁵⁹ That is also the case in the chemical, iron and steel, and nonferrous metals industries. In the past we considered three different plans for investment in industry. One plan was to invest only ¥265 trillion, which would have meant postponing many of the 141 projects. Another was to invest ¥328 trillion, which would have required us to raise an additional ¥20 or 30 trillion of revenue. As I said before, it would be difficult to do that. The current plan for investment of ¥292 trillion is the most feasible.¹⁶⁰

How about reducing the reserve fund? That is not possible either. The reserve left for the next three years is ¥38 trillion, a very small sum representing only 4 per cent of total expenditures. In such a large country as China there are bound to be unexpected expenses. Moreover, experience shows that actual construction costs for industrial projects are usually higher than anticipated. For these reasons we must keep a certain amount of reserves on hand.

Any possible surplus in revenue cannot be included in the budget. If it were listed in the budget and immediately parcelled out, the financial departments would be left no room for manoeuvre. It would therefore be best to increase expenditures on certain projects, as needed, on a yearly basis, and only when we actually have the money on hand.

There are two tendencies in finance that must be combatted. One tendency is to spend money rashly, that is, to use all we have halfway through the period, so the budget collapses. The other tendency is to spend

money too sparingly, that is, not to use all the money allocated, thus holding back construction of projects. To avoid these two mistakes we must, on the one hand, make sure to maintain certain reserves and, on the other, prepare an annual plan for increasing investment, if possible.

If we keep ¥38 trillion in reserve over the next three years, in general, we shall not spend money rashly. If we prepare an annual plan for increasing investment in agriculture and the railways, we shall not spend money too sparingly.

According to the First Five-Year Plan, cash revenue and expenditure should be balanced. If anything untoward happens, it will be in the commercial departments, unless they can obtain sufficient loans.

The foreign exchange balance with Russia is precarious. To repay the loans now outstanding and import complete sets of equipment and other capital goods, we shall have to pay the Soviet Union 13.6 billion rubles during the period of the First Five-Year Plan. We must do all we can to avoid borrowing money abroad. To maintain a balance in income and outgo of foreign exchange, we must cut down on unnecessary imports.

IV. MAINTAINING OF A BALANCE BETWEEN PURCHASING POWER AND THE SUPPLY OF GOODS

By 1957, the total annual output value of consumer goods and means of agricultural production is expected to be ¥460 trillion.¹⁶¹ But people's annual purchasing power will probably have reached ¥500 trillion, leaving a discrepancy of ¥40 trillion between supply and demand, or 8 per cent of the total value of supply. This kind of discrepancy already exists in both the urban and rural markets, but we are not sure exactly how large it is in each. There are two reasons for it. First, a huge proportion of available funds has been invested in capital construction of heavy industry, but it will be some time before goods are produced, and most of them will not be consumer goods anyway. Second, to ensure supply, we must carry out the planned purchase of agricultural products, with the result that the peasants, unable to hold back their products, will have large amounts of cash on hand.

It will be impossible to eliminate the gap between purchasing power and the supply of goods in the near future. But we cannot allow it to become too large, lest people start buying in panic and the peasants start holding on to their farm products. We must recognize that ¥40 trillion is no small figure. To solve this problem we should take a number of measures: 1) Produce more

agricultural, industrial and handicraft products. This is most important. 2) Try to sell manufactured goods in the countryside. 3) Export more agricultural products and import raw materials for light industry, such as combed wool, artificial fiber, and rubber. After these materials are turned into finished products, they can be sold in the countryside, and that will help withdraw currency from circulation. 4) Issue government bonds and encourage savings deposits. 5) Adjust the sales prices of agricultural and manufactured products. For instance, we should raise the prices of cigarettes, alcohol, sugar and other consumer goods and lower the prices of certain farm products. Our guiding principle is that although people may spend a little more money, their living standards should not drop but, on the contrary, rise a little. By adopting these measures we cannot eliminate the entire gap of ¥40 trillion, but we can reduce it considerably. In this way we shall be able to keep the market stable.

To narrow the gap between supply and demand we should use different methods consistent with the specific conditions of each locality, and we should not attempt to solve the problem in one year. I think it is a good idea to raise the purchase prices of agricultural products, to lower the prices of manufactured goods and to raise wages, and we should do those things. However, we should proceed carefully at the proper time and only when we are able to.

Finally, I should like to restate three important points.

First, although there are bound to be small changes in the figures projected in this draft of the First Five-Year Plan, the overall outline is set and cannot be changed.

Second, we must continue to balance revenue and expenditure every year in order to avoid wide discrepancies. At the same time, we must maintain a balance in the supply and demand of electricity, coal, timber and a number of other important commodities.

Third, since a great deal of the planning is indirect, local Party committees should invite more people to discuss the plan, and local governments must use their initiative in implementing it.