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ECONOMIC DEVELOPMENT IN COMMUNIST CHINA:

FINANCE AND CAPITAL INVESTMENT

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The Chinese Communists have **embarked** upon an ambitious program of economic development, concentrating upon rapid **industrialization**. To pay for it they have already, during the past four years, squeezed the country dry of savings; they are now forced to maintain the standard of living at a minimum level, in order to collect as much as possible of China's small economic surplus to invest in development projects. The course which the Chinese Communists are following is a hard and austere one, promising improvement in the future, but demanding sacrifice today. The "**small** betterment of today must be subordinated to the big betterment of **tomorrow**," they **proclaim**, and they are systematically mobilizing the resources of the country -- primarily by compulsory rather than by voluntary methods -- to make certain that the present generation of Chinese people sacrifice in the interest of industrialization and the future.

The task of acquiring investment capital is one of the most fundamental problems of economic development. It is particularly difficult in a poor country which has little economic surplus. It becomes doubly acute when a regime is determined, as the Chinese Communist regime is, to force the pace of development and to press for maximum speed. It is further complicated when a country is cut off -- or cuts itself off -- to a large degree from the major sources of foreign investments and loans, as Communist China has done, and is attempting to rely primarily on its own limited resources.

In essence, the financial problem of developing modern industry in an underdeveloped country is one of foregoing current consumption, accumulating savings, and investing the savings in development projects. Both voluntary and compulsory methods can be used, in theory at least. People can be persuaded or encouraged to save and invest, or the state can take over the task of savings and investments for the society as a whole. It is the latter course which the Chinese Communists are following. Private initiative in savings and investment has been, for the most part, eliminated, and it is the state which is squeezing from the popu-

**lation** the larger part of all the country's economic surplus above subsistence needs -- both by direct taxation and by various means which are in reality forms of indirect taxation -- and deciding how and where **it** will be invested.

The national budget is, therefore, the best key to the process of capital accumulation and investment in Communist China. Unfortunately, however, budget information -- like almost all economic data on contemporary China -- is incomplete, distorted, and far from wholly reliable. The obstacles to forming a clear picture of government finance in China are discouragingly numerous. In the first place, in 1951 and 1952 no specific budget figures were released by the Chinese Communists; data for these years must be arrived at by applying the few percentage figures made public to specific data released in 1950 and 1953-54. Furthermore, figures on past budgets have been radically altered in subsequent years. The Chinese Communists' budget statements are clearly **propaganda documents**, and every effort is made in them to disguise the real economic burden placed upon the population (especially the peasants and workers), to inflate the figures on investments in **economic** development, and to conceal the **burden** of military expenditures. Added to these and similar problems is the difficulty of converting Chinese figures into a more meaningful monetary unit; the official exchange rate between the Chinese **Communists' People's** Currency and the **U.S.** Dollar is the most logical conversion rate to use, but **it** undoubtedly inflates the real value of the Chinese figures. Despite all these problems and difficulties, however, **it** is possible to obtain a general idea from available budget figures of the ways in which the Chinese Communists are mobilizing and using the resources of China in their program of development. (See the attached charts on the Chinese **Communists'** budgets.)

Huge Budgets. The most obvious and startling fact which the Chinese Communists' budget figures reveal is the rapid increase in state control over the national income of China. Budgets have steadily grown, and the state has extended its economic operations and controls to the point where now a very large percentage of the product of the national economy is collected and distributed by **it**. Before the Sino-Japanese War, the national budgets of China totaled approximately **U.S.\$500** million, which in terms of current dollar values might be somewhere near **U.S.\$1** billion. Since 1949, Chinese budgets have skyrocketed from roughly **U.S.\$3** billion in 1950 to approximately **U.S.\$10** billion this year. (The official budget forecasts for 1954 call for expenditures of **U.S.\$10.5** billion and revenues of **U.S.\$9.8** billion.) These figures are an index of the rapidly-growing control of the Communist regime over China's whole economy. The state now collects and distributes an increasing percentage of the produce of **China's** peasants, **it** owns and manages a growing segment of the country's industry, **it** controls an ever larger share of domestic trade, and **it** has more and more people on the payroll of government agencies and government-owned enterprises.

**It** is difficult to convert these budget figures into a percentage of national income, because estimates of **China's**

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national income are so unreliable, Some prewar estimates of the country's national income were as low as U.S.\$12 to U.S.\$15 billion. At present, China's national income may be between U.S.\$20 and U.S.\$30 billion, (The best estimates are guesses.) Even if, for purposes of rough guesswork, one tentatively accepts the highest estimate of U.S.\$30 billion, this would mean that the Chinese Communist regime's budget now totals approximately one-third of the total national income. In actual fact, the budget may be close to one-half of the national income.

The high degree of state control over the national economy -- which is constantly increasing -- now makes it possible for the Chinese Communists to decide how a large proportion of the output of the economy will be used, In short, most of the capital accumulation and investment in Communist China is being carried out by the state, and is included in the national budget.

"Capital Accumulation." The way in which the Chinese Communists themselves analyze their "problem of capital accumulation" is of considerable interest. They start by emphasizing that they must rely primarily on internal capital resources rather than on foreign aid, Then they state that the major sources of internal capital accumulation in order of importance will be the following: (1) accumulation from state-owned industry; (2) accumulation from other sectors of the socialist economy, including trade and transport; (3) taxes of all sorts; and (4) bonds. It might appear on the surface that taxes are to be relatively unimportant, but this is highly deceiving, as it is meant to be. Apart from the bonds, which are a form of forced savings and are a very small element in the total picture, all of the other categories are in reality forms of taxation, either direct or indirect.

Profits from State Enterprises. "Profits from state enterprises," whether industrial or commercial, are really concealed deductions from the income of workers or disguised taxation imposed on consumers.

Some Chinese Communist writings state that "increased production and economy campaigns," especially in state economic enterprises, are the "main form" of accumulating capital for economic construction; these campaigns are essential in the Communists' program to increase the "profits from state enterprises." In essence, the campaigns to "increase production and economize" are efforts to get laborers to work longer, more efficiently, and more productively without commensurate increases in pay. The Chinese Communists also attempt to economize on materials, to reduce operating costs, and to increase efficiency, but it is in the ratio of labor productivity to wages that the main "economy" can be made, Workers are urged to work harder for rewards which are primarily psychological rather than financial. Ever since they took over, the Chinese Communists have pressed campaigns to achieve "increased production and economy," and a huge campaign with this label, launched in Pate 1952 on the eve of China's first Five Year Plan, has become an important and

permanent feature of the regime's economic policies, **Discussions** of the first Five Year Plan, furthermore, frankly call for a greater increase in labor productivity than in wages.

Another major source of **"profits** from state enterprises" -- and undoubtedly the most important one at present -- is the mass of consumers in China, both rural and urban. The state owns and controls a large and increasing amount of industry, and commerce in China. (Last year the Chinese Communists claimed that 50 per cent of all modern industry, accounting for 60 per cent of industrial production, was state-owned, and that 63 per cent of total domestic trade, including most wholesale trade and 32 per cent of retail trade, was handled by state agencies and affiliated **cooperatives**.) Profits which formerly went to private entrepreneurs and owners are now funneling into the state treasury. In **short**, the state now makes a profit -- which might well be called a tax -- on most economic transactions in China, and it is the mass of consumers who, in the last analysis, **pay** for this, **Prices** on basic necessities have been kept remarkably stable, through rigid controls, but the profits which formerly went into private incomes -- some of which were consumed and some invested -- now channel mostly to the state. (Accompanying this basic change, there has been a drastic **leveling** of wealth and consumption in China, and there are now few, if any, large-scale concentrations of private savings which can be used either for private investment or above-average consumption.)

The profits from state trade, as contrasted with state-owned industry, are not emphasized in Chinese Communist writings, but they are extremely important at present; the state has extended its control over trade very rapidly, and buying and selling comprise a large part of all economic transactions in the country. It is estimated that, on a nationwide basis, the profit margin on purchases and sales by state trading companies is probably over 20 per cent. In Manchuria, according to official statements, state trade accounts for one-third of all **"profits from state enterprises,"** and in other parts of the country, where there is less industry, the proportion is undoubtedly well over one-half. It is probable, in fact, that state trading agencies provide one-fifth to one-sixth of the total receipts of the state treasury at present, if taxes on state trade and **"depreciation funds"** as well as their profits are included,

By 1952 it was officially claimed that total sales of state trading companies were the equivalent of U.S.\$4.5 billion and that retail sales of state-controlled **cooperatives** were U.S.\$2.4 billion. It is possible that the state made close to U.S.\$1.5 billion in profit on these transactions,

The burden of these state profits on trade is distributed among all sectors of the population, but since China is basically an agricultural **country**, a particularly heavy burden is imposed upon the peasantry. The state is now attempting to **buy** the entire surplus grain crop in China, and it is making a profit

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on this operation at the expense of the peasants. Detailed information on prices paid to peasants by the state is difficult to obtain, but there is ample evidence that state prices are lower than those which merchants -- who are being driven out of the market -- would be willing to pay,

The state makes a profit both on purchases of agricultural produce from the peasants and on sales of manufactured goods to them, and the ratio of agricultural and industrial prices is very unfavorable to the peasants. A survey in Kwangtung province in late 1952 indicated, for example, that in terms of grain, the prices which peasants were forced to pay for industrial goods had risen greatly since 1949; plows, fertilizers, and cotton cloth had doubled in price, and prices of necessities such as salt, kerosene, and vegetable oils had risen considerably. The price ratio in cities, about which more details are available, also shows that the state is making much of its profit at the expense of the rural population. To cite one example, in Shanghai at the end of 1952 it took 208.3 catties (one catty equals 1.1 pounds) of medium grade rice to purchase a bolt of cotton cloth, compared to 162-catties in 1950 and 112 catties in 1936. A similar situation existed in other basic commodities, and in other areas,

As industrialization develops in China, profits from state industry will become increasingly important as a source of income to the state. The Chinese Communists frankly say that light industries -- which produce consumer goods -- must be the source of most profits from state industry, and they assert, in fact, that "accumulation of capital" is one of the primary tasks of light industry. Heavy industry is devoted to producing equipment for new development projects; profits from these would merely increase the costs of the new projects, and would therefore be a transfer of funds from one pocket to another on the part of the state. The burden of profits from light industry, however, can be passed on to the mass of consumers.

"Depreciation funds" (amortization) are another significant source of "profits from state enterprises." Individual state enterprises, instead of building up private sinking funds, channel such funds into the treasury, and the state makes the decisions on where they will be invested or reinvested.

(State enterprises are also taxed by the state, and income from this source provides a large and increasing share of total tax revenue. The burden of this taxation is for the most part also passed on to the mass of consumers.)

Chinese Communist official figures show a steady rise in earnings from state enterprises, and this item is now claimed to be the second largest source of state revenue. From approximately U.S.\$350 million in 1950, it has risen to U.S.\$3.5 billion in the budget projected for 1954; in short, it has increased ten times in four years. In terms of a percentage of all revenue,

it has increased from slightly over ten per cent to over 35 per cent of the total.

Agricultural Taxation. Despite the steady rise of income from state enterprises, the level of taxation has not been reduced since the **Communist** take-over in China. On the contrary, taxes have become heavier than before. Even in cases where tax rates have been lowered, improved and tougher methods of assessment and collection have increased **tax yields**.

The most important single **tax** in China is the grain tax, levied mostly in **kind**.

The Communists have made strenuous efforts to tighten up and improve collection of the grain tax. In 1950, they established a unified system of **collection** and storage in granaries under the Ministry of Finance (later transferred to the Ministry of **Food**); local surtaxes **were still** allowed but were limited to 15 per cent of the central **government's** tax. Two years later, local surtaxes were abolished, and the whole system was completely centralized (although some special local levies for local projects are still **allowed**).

At present **the** central government collects and controls the entire tax. In general the tax is levied in grain, although about ten per cent is paid in **other** crops and about ten per cent in cash in areas growing products such as cotton, etc. Tax rates are now based on **theoretical "norms" -- i.e., what** certain types of land ought to produce<sup>n</sup> under normal conditions -- and although detailed **information** is **difficult** to obtain, these are many reports that these norms are **often ask** at unreasonably high levels. **If** production **is** above the norm, **theoretically** no tax is imposed on the surplus (this is designed to be an incentive to production); but if **it** is below the norm, no **reduction** of the tax is allowed except **in** special calamity **situations**.

Two different systems of levying the grain tax are **still** in use. In "**old** liberated areas," including roughly 120 million people mainly in North China and Manchuria, taxes are levied as a set **percentage** of the **crop** or acreage. In Manchuria rates vary for different provinces and range from 15 to 23 per cent of the main crops, the average rate for the whole area being over 20 per cent. In North China, a unique system is followed, based upon family units and acreage. The tax **rate** is 22 **catties** of grain per taxable **mow** (one **mow** equals one-sixth of **an acre**) of land; the number of **taxable mow** is determined by taking the total amount of land and deducting one **mow** per working member of the family.

In the rest of the **country**, the system used -- which is expected to become universal eventually -- is based on a progressive scale of rates and on total agricultural **income**. A peasant pays his tax in kind as a percentage of his whole income, the rate depending upon the level of his income. There are 24 different grades in the scale, varying from 7 per cent to 30 per cent,

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Viewed superficially, these rates do not seem to be excessively high, but there are many reports that, due to the methods of assessing land and setting "normal yields," the actual taxes paid are much higher than the rates would indicate; it is probably that the tax takes a large proportion of a peasant's surplus above minimum needs, and in some cases even cuts into his minimum subsistence requirements. (What is left, furthermore, is usually purchased by the state at low prices.) Therefore, although rents to landlords have been virtually eliminated as a result of the Communists' land distribution program, the burden on the peasants is still excessive, and in some places it may well have increased. (It is significant that the Chinese Communists admit that over 3,000 of their cadres were killed trying to collect the grain tax in the first year after their take-over.) The state has abolished private landlordism but has replaced land rents with taxes, and other levies.

The amount of revenue obtained from the grain tax has increased steadily since 1949, but at a rate slower than that of other major forms of revenue; and the Chinese Communists have claimed that this indicates a decreasing burden on the peasants as related to other population groups. According to official claims, income from the grain tax increased from about U.S.\$800 million in 1950 to slightly over U.S.\$1 billion expected for this year (an increase of only one-fourth). These figures represent a decrease of total revenue from 27 per cent to 13 per cent. Independent non-Communist estimates place the figure on revenue from the grain tax at a higher level, however -- roughly U.S.\$1.6 billion, or about one-fourth of total revenue. Even if the official estimates are true, furthermore, they do not constitute "proof" of a lighter burden on the peasants. The state's grain purchasing program and its price policies on agricultural and industrial goods ensure the peasants' providing the largest share of the state's income; there is really no alternative, since China is an agricultural country.

Urban Taxes. There is no doubt, despite the onerous burden on the peasantry, that the heaviest direct taxation is imposed upon industry and commerce, both state and private. A good deal of this is passed on to consumers, rural as well as urban, but the one group which is hit hardest is private businessmen.

When the Chinese Communists came to power, urban taxation was chaotic and inefficient, and tax evasion was prevalent everywhere. All this was soon changed, however. At first the Communists simply cracked down on collection of taxes already on the books. Then, in 1950, they began to regularize and rationalize the tax system, simplifying and reducing the number of taxes. Finally, in 1952, the mammoth "Five Anti Campaign" against businessmen clamped down on tax evasion so ruthlessly that tax evasion, regardless of the unreasonableness of the taxes, was virtually eliminated for the foreseeable future. Since 1952, the process of simplification and rationalization has continued; the scope of urban taxation has been widened and collection improved. At present, everyone down to and

including individual hawkers on the streets is subject to taxation,

At the end of 1952 a new tax, which in time will undoubtedly become the most important urban levy, was introduced. This tax, called the commodity circulation tax, is a single levy on a commodity from manufacturer to consumer. It is imposed on both state and private **enterprises**, and is passed on in large part to the consumer. At present it is being applied on a trial basis to only 22 categories of commodities, but the plan is to extend it gradually. Rates, set as a percentage of state selling prices, are high, even on basic necessities. For example, the rate on cotton yarn is 22 per cent, on matches 21 per cent, and on wheat flour 10 per cent,

For most commodities not yet included under this new tax, the system is more complicated; and taxes are generally paid by the manufacturer, wholesaler, and retailer. There is a commodity tax, with **rates** comparable to those of the new commodity circulation tax. There is also a business tax paid by private wholesalers and retailers as a percentage of their total turnover, with surtaxes added. In addition, there is a business income tax paid by private industry and commerce on profits; and so forth. Except for the business tax, most of the burden of these taxes is passed on to consumers, and the business income tax takes a large share of the small profits which remaining private businessmen in China are able to make,

These are the main producers of urban tax revenue, but there are many other taxes, including **stamp** taxes, a tax on interest on deposits, a house tax, a tax on urban land, a tax on vehicles and vessels, a slaughter tax, and miscellaneous other levies such as feast and amusement taxes,

As in the case of rural taxation, the tax rates are not an accurate index of the real tax burden. One of the most prevalent ways of imposing taxation is a method called "**democratic appraisal.**" Under this system, representatives of business groups are called into meetings with Communist participation, and the amounts of taxes to be paid are decided after prolonged discussion. This is a variation of an earlier method called "**democratic assessment**" in which the Communists arbitrarily set a sum to be paid by some organized group of businessmen -- such as a guild or **business association** -- and let the group decide how much individuals would **pay.**

Only a small percentage of taxes paid by private enterprises are based on audited company accounts, partly because modern accounting is still undeveloped in China and partly because the authorities are suspicious (with reason) of doctored records. This method is used with some large modern **companies**, but the Communists carefully investigate before accepting a company's accounts.

A third system of assessment is also used, mainly for



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small shops and hawkers. Under this system the tax authorities investigate and then, on the basis of their own estimates, set fixed amounts of taxes to be paid at specified times.

Reports of refugee businessmen from China indicate that these **taxes** add up to a tremendous total. Much of the tax burden is passed on to consumers, but without doubt private businessmen carry the heaviest burden of any single group in China. Although comprising only a **very small** percentage of the total society, private business provided -- according to **official** claims -- between one-fifth and one-fourth of all state revenue in **1953**, and in the budget for this year one-sixth of the total revenue will come from it. It is being taxed out of existence (as well as being forced out of existence in other ways). As private enterprise has steadily declined, however, an increasing share of urban tax revenue has come from taxation of state enterprises, and almost all of this is passed on to consumers. As a result, whereas formerly a large percentage of tax income from this source was paid by the small business class in China, in the future almost all of it will of necessity be paid by the mass of the population in the final analysis,

Chinese Communist figures indicate that income from urban taxation, of which industrial and commercial taxes are most important, is now claimed to be the largest source of state revenue. From **1950** to **1954**, it has increased **3.5 times**, from **U.S.\$1.3** billion to **U.S.\$4.4** billion. In terms of a percentage of total revenue, however, the figure has not changed very much; in **1950** urban taxation represented **43** per cent of total revenue, while in **1954** it is **45** per cent.

Extraordinary Financial Levies. One of the most intriguing items in the Chinese Communist budget is the source of revenue called "**other.**" From **1950** through **1953**, this vague and undefined category accounted for over one-sixth of all revenue, and in **1952** it amounted to almost **U.S.\$1.9** billion, close to one-quarter of total revenue!

A large portion of the income in this obscure catch-all category undoubtedly has come from several extraordinary financial levies which the Chinese Communists have imposed upon the population. By these levies, the state has squeezed out of Chinese society a very large percentage of the private savings accumulated in the past and has dissipated **most** concentrations of private capital,

During the Korean War, from June **1951** through May **1952**, the Chinese Communists conducted a huge "**Arms Donations Campaign**" in which the population was pressed to contribute money to buy war equipment. The campaign was carried out all over the country, but the **squeeze was** hardest on businessmen, particularly in **Shanghai**; almost **40** per cent of the donations came from East China and over **15** per cent from Shanghai alone. At the end of the campaign the authorities announced that the campaign had netted the

equivalent of U.S.\$247 million.

Even before the donations campaign was formally completed, a new levy was begun. From January through May, 1952, the so-called "Five Anti Campaign" against the "five poisons" of the business class convulsed all of China's major cities. Under the guise of collecting "back taxes," "fines," and "ill-gotten money," tremendous sums were collected from businessmen. Over three-quarters of the business establishments in the principal cities -- more specifically, 340,000 out of a total of 450,000 private enterprises of all sorts in nine leading cities -- were forced to pay up. After the campaign was completed, the Chinese Communists officially stated that the equivalent of U.S.\$1.7 billion had been collected, and the total may well have been even larger than this,

Confiscations of property have also provided sizeable amounts of state income. When the Communists came to power, they acquired large warehouse stocks of commodities from state-owned enterprises taken over from the Nationalists, and also from confiscated enterprises of "bureaucratic capitalists." The proceeds from sale of these stocks were credited to the 1950 budget. During land reform, which was carried out all over the country from 1950 through mid-1953, most of the property -- including houses, grain, furniture, etc. -- of about 20 million landlords was confiscated. The majority of this property was distributed among tenants, but some was taken over by the state. There are no official figures on what this netted the state, and it is not definitely known whether the receipts from this source appear in the budgets of the past four years; but unofficial estimates range as high as U.S.\$2 billion, and it is possible that the budget figures do include some income from this source.

However, extraordinary levies of these kinds obviously cannot continue indefinitely. It is probable, in fact, that the ones already carried out have taken the fat out of the Chinese economy, and it is doubtful whether there is much left to be collected in the future. From now on, the Chinese Communists will have to rely almost wholly on what they can get from the current national income, and it is significant that the 1954 budget is the first one which does not have a very large slice of revenue labeled, vaguely, "other."

Other Sources of State Income. The only additional item of revenue which appears in Chinese Communist budget statements is income from credit and insurance. The banking system in China is now completely centralized, and sizeable state profits are made on interest charges on both rural and urban loans, paid by state as well as private enterprises. Compulsory insurance, administered by the Chinese People's Insurance Co, and other institutions supervised by the People's Bank, also produces a significant amount of revenue. Budget statements indicate that state income from sources of this kind grew from U.S.\$138 million in 1950 to U.S.\$434 million last year,

Savings -- Forced and Voluntary. Needless to say, after

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being subjected to all the taxes and levies already described, the average person in China does not have very much surplus cash left over, but what there is the Chinese Communists efficiently collect or control.

Two sizeable government bond campaigns have been conducted by the Chinese Communist regime, in periods when no other special campaigns were under way. The first was in 1950. The original plan was to sell 200 million "units" of these bonds, but only the initial issue of 100 million, **equivalent** to roughly U.S.\$100 million, was put out. Purchase quotas were established, and people all over the country were forced by various pressures to buy the bonds; as in the case of the campaigns already described, the heaviest burden fell on urban and business groups. These 1950 "Victory Bonds" were scheduled to be repaid in five years, but this was later revised, and redemption is still going on.

The second bond campaign is being carried out at present. The new "National Construction Bonds," on which there is interest of four per cent a year, cannot be used as credit instruments, so they are an effective anti-inflation device. Urban areas have been assigned a purchase quota of 70 per cent of the total bonds, and businessmen must subscribe to over three-fourths of this. At the start of the campaign to sell these bonds, the announced target for the whole drive was about U.S.\$250 million, but by June 1954 it was officially announced that already over U.S.\$340 million have been subscribed.

Apart from these bond campaigns, the Chinese Communists have exerted great efforts to develop "voluntary" individual savings. Savings have been accepted in terms of "parity units," pegged to the current value of basic commodities, to minimize any possible **risks** from inflation. Campaigns to induce people to open savings accounts have been conducted on a large scale. The People's Bank has established thousands of new branches, agencies, and "stations," reaching into local villages, factories, and urban areas; and the bank's personnel now totals over 300,000, ten times the number of persons in government banking under the former Nationalist Government. Slogans such as "patriotic savings" are widely used, and their use implies that those who do not save are unpatriotic. And, as in the case of bonds, very often compulsory quotas (for minimum **savings**) are assigned to individuals or groups. The facts seem to indicate, however, that people do not have very much money which they can save, and consequently private savings play a relatively unimportant role in the overall financial picture.

The Budget Balance and Financial Stability. Although state revenues in Communist China have grown rapidly during the past four years, expenditures have also **soared**, and the government has been under severe financial strain. However, the Chinese Communists claim that since 1950 they have managed to balance their budgets. In 1950 they admitted having a deficit, which was partially met by issuing paper currency, but subsequent revisions have officially erased even this deficit on paper. Last year,

the Chinese Communists claimed to have a sizeable surplus, which they say is being applied to this **year's** budget.

The claims of budgetary surpluses are extremely dubious, however, and may well be the result of **statistical** legerdemain. Actually, despite the energetic collection of revenue from every conceivable source, the Chinese Communists have undoubtedly had sizeable budget deficits. Independent non-Communist studies of China's finances indicate that the annual deficits may have ranged from **about U.S.\$500 million** to over **U.S.\$1 billion**.

It is remarkable, however, that the Chinese have been able to stop currency inflation and to maintain stable prices for **basic** daily necessities. For almost a decade before the **Communists** came to power, inflation had steadily spiraled upward in China and, by the time they took over, the currency and prices were in a chaotic shambles. Inflation continued **during 1949** and 1950, but by the end of **1950** the Communists had checked it. The general price level rose almost 100 per cent during **1950**; in the following year the rise was only about ten per cent; in 1952 the price level actually dropped; and since then it has been generally stable.

One of the main explanations for the **regime's** success with price stabilization, of course, is the fact that the heavy taxes and special levies which it has imposed have been drastically deflationary and have sopped **up** a great deal of currency. Circulation of currency has also been reduced by other **measures**. The banking system is highly centralized and under complete government control. Control over cash is rigid. All state enterprises must deposit their receipts in the state bank within three days, and payments between state enterprises are made by account transfers in the bank. Private enterprises must use checks rather than cash for all transactions involving over **JMP 300,000** (about **U.S.\$13**). They must also maintain special accounts in the state banks for paying their taxes. And the state bank controls or supervises all credit and loans.

Since **1950**, furthermore, state trading companies have dominated the wholesale markets, and established **the** prices, for all essential commodities. More recently state trading has **ex-** expanded rapidly into all fields, and the state now directly sets or controls the prices for innumerable goods.

Price stabilization has been achieved, therefore, by drastic measures, but there is no doubt that it has been a major accomplishment of the Chinese Communist regime. And as the free market in China shrinks, the possibility of runaway price inflation in the future steadily decreases -- even though the Chinese Communists may have continuing difficulty in financing their myriad government operations and their economic development program.

Standard of Living. It is difficult to obtain reliable data on what has happened to the standard of **living** of the mass of ordinary Chinese since the Communists came to power, but it is

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possible to obtain a general idea,

The Chinese Communists assert that wages and the purchasing power of the masses have steadily risen. For example, they say that the average wage level in China rose 27 per cent in 1949, 12 per cent in 1950, and 15 per cent in 1951, and that by 1952 wages were 60 to 120 per cent above the 1949 level. (The target for 1954 is a five per cent increase.) At the same time, however, they admitted that wages in 1952 were generally at the same level as before the Sino-Japanese War -- a level which was very low to begin with. Regulations on wages give a clue as to how low wage levels actually are. In Central-South China, for example, the minimum and maximum monthly wages of industrial workers were established, in late 1952, at the equivalent of about U.S.\$14 and U.S.\$53. Despite official claims to the contrary, general wage levels may well have declined in many places. For example, it is estimated that in Shanghai an average worker in 1949 received a monthly wage of about 160 "parity units" (pegged to commodities) and only 100 units (about U.S.\$20) in 1952 -- a decline of approximately one-third.

Official claims of increases in "purchasing power" are also dubious. The claimed increases in the past have been as high as 30 per cent (in 1951), and this year the target is a 14 per cent increase. One indication that these claims are dubious, however, is that fact that the monetary value of "parity units," on which wages are based, has not risen as rapidly as general prices -- which would indicate a decline in the real purchasing power of wages rather than a rise.

Refugees coming from Communist China report that although the wages of a small group of industrial workers -- an especially favored group -- may have increased slightly since 1949, the general standard of living has probably declined. This seems likely, in the light of all that has taken place. It also seems inevitable, because the economic program which the Chinese Communists are attempting to carry out can only be financed out of the pockets of the mass of the population,

As the official Peking People's Daily stated on October 30 of last year, "workers' wages and amenities must be subordinated to the interests of national construction; the quantities and prices of agricultural products sold by the peasants must be subordinated to the interests of national construction; the demand of urban and rural people for betterment of life must also be subordinated to the interest of national construction."

The Cost of Political and Military Power. The Chinese Communists' aim -- and their justification for imposing a heavy financial burden upon the population of China -- is the economic development and modernization of the country. The Chinese people must make sacrifices now, they say, so that as much of the nation's resources as possible can be devoted to economic development, particularly industrial projects. And it is true that large and

increasing sums have been allotted annually to "investments in state enterprises" and "national construction."

But investments in new economic development are not the only explanation for the financial burden placed upon the mass of people by the state. The Chinese Communists have built up a huge party and government bureaucracy, they maintain a tremendous military establishment, and they have fought one major war -- in Korea -- and contributed to another -- in Indo-China. The apparatus of power, both internal and international, is expensive. The military and administrative expenses of the present Chinese regime are in fact several times as large as total national budgets in China were before the Communists came to power.

Since 1950 "administrative expenses" in Chinese Communist budgets have jumped from roughly U.S.\$500 million to between U.S.\$1 and U.S.\$2 billion. Until this year, this item has declined as a percentage of total expenditures -- from almost 20 per cent to about 10 per cent -- but the absolute figures have risen greatly, nonetheless. A contributing factor to this rise has been the centralization of finance; since 1952 the Communists have eliminated the financial autonomy of local governments in China, and the central government subsidies required to support local administrations now appear in the national budget. (Almost one-fourth of the 1954 budget consists of allocations to municipalities and provinces.)

Although the Chinese Communists are intentionally vague about what is included under various headings of their budget, undoubtedly the most important part of their administrative expenses consists of the salaries of the horde of government and party employees in China. There is now a larger number of economically unproductive bureaucrats on the government payroll than ever before in Chinese history. Their salaries have been kept low, and corruption is reported to have been almost completely eliminated; but it costs huge sums of money to support millions of government functionaries, clerks, policemen, teachers, political cadres, and others, even if they are incorrupt and live austere lives.

When the Chinese Communists came to power, they had already built up a large bureaucracy of their own, and they inherited -- and continued to support -- most of the bureaucrats from the previous regime. Since then, as the government and party have extended their operations into every sphere of national life, the payroll has continued to grow. Furthermore, despite the Communists' periodic efforts to cut down the number of employees, and their dramatic campaigns against "bureaucratism" (such as the "Three Anti Campaign" in 1952), persons leaving mainland China paint a picture of a very bureaucratic state, with swarms of government employees everywhere. The totalitarian character of the regime has apparently created an unwillingness on the part of petty bureaucrats to assume responsibility, and there is great buck-passing, overlapping of jobs, and duplication of effort.

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There are no recent figures on the total number of employees paid by the state, but it may well be in the tens of millions. Three years ago, it was stated officially that there were nine million people on the "supply system" alone (the "supply system" is one in which the needs of state and party employees are directly provided by the state, and salaries are minimal); the figure undoubtedly is much larger now. In 1950, as a matter of fact, Mao Tse-tung stated that one of the three primary economic tasks facing the regime was the job of cutting down the civilian and military payroll. This is one aim which the Chinese Communists obviously have not achieved.

The burden of military expenditures is even greater than the costs of the civilian bureaucracy. Official statements admit this, and it is clear that the official figures are not an accurate key to real military expenses. Expenditures labeled either "military" or "national defense" in the budgets of Communist China have risen from U.S.\$1.2 billion in 1950 to over U.S.\$2.2 billion in the forecast for 1954. As a percentage of total expenditures, these figures show a decrease, however, from approximately 40 per cent to about 20 per cent.

Although any estimate of real military expenditures must be based largely upon guesswork, it is probable that between one-third and one-half of Communist China's total budget outlay is really devoted to building up and maintaining military power and that a large share of this item is disguised, and placed under different categories, in official budget statements. Military aims play a big role in China's current program of industrial development, and undoubtedly projects such as arms and munitions factories are classified as "construction" rather than as "defense" items.

Communist China not only maintains a huge army, but it has made great efforts to reorganize and re-equip China's armed forces with modern materiel; and in Korea China has fought an expensive war. Conservative estimates place the figure for China's regular army at 2½ million, and the actual figure may be considerably larger than this. These regular forces are backed by large numbers of Public Security troops whose primary task is internal control. The cost of merely maintaining such large military forces is great. And the costs of fighting the Korean War were tremendous. The great financial strain of the war on China was a major reason for the Communists' willingness to negotiate a truce in Korea. It is probably significant, furthermore, that during 1951 and 1952 the Chinese Communists did not release any dollar figures on their expenditures, and in 1953 the Minister of Finance was fired. Recently, top Chinese leaders have admitted that actual military expenditures during 1953 were higher than original budget estimates (they also admitted that less was spent on economic construction than was planned), and military costs are likely to continue to be a major burden on the Chinese economy.

For a poor country -- relying mainly on its own

resources -- to attempt to support a huge totalitarian regime and to build up modern military power at the same time that it embarks upon a large-scale economic development program is ambitious indeed. It is not surprising that the burden on the population is massive. There seems to be little prospect, furthermore, that either administrative or military costs can be reduced in the foreseeable future, and the cost of economic development will therefore be superimposed upon the economic burden of maintaining internal and international power.

Culture, Education, and Health. Since 1949 the Chinese Communists' expenditures on cultural activities, education, and health have greatly expanded. In 1950 this item of the budget amounted to U.S.\$319 million; the 1954 budget allots U.S.\$1.5 billion to these purposes (including relief and pensions).

Great emphasis is placed upon "culture" and education in Communist China, because activities in these fields are essential to the political and economic aims of the regime. The Communists want to mold the minds of the new generation in China and to turn out thousands of technicians for modern economic-development projects. Actually, it might be more accurate to label these expenditures "propaganda, indoctrination, and technical training." It is true, however, that the number of schools and students in China has grown tremendously. The Communists plan to enroll over 90,000 students in institutions of higher learning and almost 1.5 million students in middle schools (including technical and adult middle schools) during 1954. It is also true that public health and medicine, of a low-level sort, have been extended to an unprecedented extent. A majority of the hsien (counties) in China now have "clinics" of one kind or another, and the Communists claim that in 1954 the number of hospital beds in China will increase to over 200,000.

Even though accomplishments in these fields have been considerable, it is difficult to account for the huge sums of money allotted to them in the budgets, if one examines the specific accomplishments made. Consequently, non-Communist estimates of expenditures in these fields are much lower than official claims and are nearer to U.S.\$500 million than to U.S.\$1.5 billion,

Investments in National Construction. After all the expenditures already described, how much do the Chinese Communists have left for investments in economic development, and how, specifically, are they investing it? This is the key question, if one is attempting to analyze the present development program in China and to arrive at some estimate of the resources being devoted to it.

From 1950 through 1952, investments in economic development appeared in Chinese Communist budgets under the label of "investments in state enterprises"; since 1953 they have appeared under a category called "national economic construction." Official budget statements show a tremendous rise in these expenditures,



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from U.S.\$733 million in 1950 to U.S.\$4.78 billion in 1954. These figures indicate an **increase** of over 650 per cent, and an increase as a percentage of annual budgets from 25 per cent to **45** per cent. The Chinese Communists now claim, in short, that they are devoting almost half of their total expenditures to economic development, and that these expenditures are by far the largest item in the **budget**.

As implied earlier, these figures are not **easy** to evaluate. To what degree do they conceal expenditures which are clearly military? To what extent are operating costs, as contrasted with new investments, included in these figures? How **much** of the investments are merely for repair and maintenance of existing capital equipment rather than for new projects? These and other questions are difficult to answer on the basis of available data. Some non-Communist economists scale down the official estimates by as much as 50 per cent, but there is a lot of guesswork involved in any effort to interpret the official claim. This much is clear, however; the Chinese Communists are devoting very large sums of money to economic development projects, and these sums undoubtedly are the equivalent of billions of U.S. dollars. There can be very little argument with the Chinese **Communists'** claim that they are investing a larger share of **China's** national income in modern economic development than **any** previous regime has done in Chinese history.

Up until the end of 1952, most of the Chinese **Communists'** investments were, admittedly, devoted to restoration of the economy rather than to new **projects**. However, since 1953, when China's first Five Year Plan was formally initiated, the Chinese Communists have claimed that they are investing increasing amounts in new projects. Their breakdown of expenditures on "**economic construction**" during the past two years is a revealing indication, therefore, of the general pattern of investment in their development program, even if the specific figures must be viewed with some skepticism,

Modern industry **is** the heart of the Chinese **Communists'** program, and consequently it is receiving the bulk of current **investments**. In 1953 and in 1954, industry accounts for over U.S.\$2 billion and between **45** and **50** per cent of total expenditures on economic construction. Most of this, furthermore, is being devoted to heavy industries which **produce** capital goods, rather than to light industries which produce consumer goods. This year, for **example**, almost four-fifths of **expenditures** on industry are allotted to heavy industry and only one-fifth to light **industry**.

Transport and communications, which are vital to modern industrialization, receive second priority. Last year about U.S.\$500 million, and this year roughly U.S.\$750 million, have been earmarked for investments in these **fields**. The largest single field of investments under this general category consists of railway construction.

By contrast, agriculture (including forestry and water conservancy) is receiving little new investment. It is true that investments in this field, which in many cases involve a great deal of cheap labor and not very much expensive equipment, may well be more productive per dollar invested than those in industry and transport; nonetheless the low figures are rather startling in view of the fact that China is an agricultural country in which, at least for a long time, agriculture must provide most of the surplus for investment in economic development. In 1953 and in 1954, about U.S.\$500 million, or only 10 per cent of total expenditures on economic construction, have been allotted to agriculture. In the 1954 budget, as a matter of fact, expenditures on agriculture are even lower than those earmarked for domestic and foreign commerce.

What this pattern of investment means is that although the peasants and the agricultural economy are the main supports of the Chinese **Communists'** development program, most of the investments are being made in modern industrialization in urban areas. The peasants are paying the greater part of the bill but are receiving few immediate benefits. Another fact which these figures reveal is that most of the current investments are being made in the kind of industries which will not create any sizeable, quick increase in the Chinese national income, or in the average standard of living. The heavy industries on which the Chinese **Communists** are now concentrating are designed to turn out more equipment for new industries, which in turn can produce more equipment for still newer industries -- until at some unknown date in the future the economic planners in the Chinese Communist regime are satisfied that they have created a powerful industrial base. If a larger proportion of the investments were devoted to projects which had a more immediate impact upon the national economy and standard of living, the burden of squeezing the necessary "**savings**" for economic development out of the population might gradually become lighter. But this would be a slower process, and the Chinese **Communists** are determined to try to industrialize rapidly. The present burden on the Chinese population is not the primary concern of the **Communists**; they have their eyes focused on the future.

Foreign Exchange and Capital Equipment. To carry out their present industrial-development program, the Chinese **Communists** face a difficult problem of acquiring foreign exchange as well as accumulating domestic capital. During the initial stages of industrialization most of the capital equipment required for building new factories, expanding existing ones, and even maintaining old plants must be imported from abroad. **China's** machine industries are still undeveloped; the largest center of such industries in the past was Manchuria, and in 1945-46 Soviet troops removed (according to postwar surveys) 70 to 80 per cent of the capacity of **Manchuria's** metal-working industries.

Communist **China's** decision in 1949 to "**lean** to one side" -- i.e., to align itself completely with the Soviet

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bloc -- and its moves to challenge Western military power in Korea have accentuated the problem, because China thereby cut itself off from any possibility of Western loans and investments and brought upon itself a Western embargo on the type of industrial equipment most urgently needed for its development program. The pace of Communist China's industrial development at present depends very directly, therefore, upon the ability and willingness of Soviet-bloc nations to export industrial equipment to China, and much of the equipment which China needs belongs to categories which are still in short supply throughout the Soviet bloc.

The problem of paying for essential imports is difficult, also, because China is now receiving very little foreign assistance in the form of loans or grants, and it must therefore export to pay for almost all of its imports -- including those from the Soviet bloc. One of the most surprising aspects of **Sino-Soviet** relations is the failure of the Russians to give greater financial assistance to China. No free grants from the **U.S.S.R.** to Communist China have ever been revealed, and to date the only loan made public has been the 1950 five-year loan of **U.S.\$300 million -- i.e., U.S.\$60 million a year --** which has a low interest rate of one per cent; annually but must be repaid in ten yearly installments, to be completed by 1963. It is possible that there has been some secret financial aid for military purposes, but it seems unlikely that additional aid for economic purposes would have remained concealed. The Soviet Union is sending equipment and technical advisors to Communist China (much of the advice seems to be how to carry out projects with a minimum of equipment), but the Chinese apparently must pay for almost all of this Soviet assistance,

The Chinese problem of paying for essential imports can be better understood if it is realized that in the past China has always had a very unfavorable balance of trade, and a sizeable percentage of its imports have been paid for with foreign exchange acquired from remittances from Overseas Chinese and from foreign loans and investments. (Before the Sino-Japanese War, there were **U.S.\$3.2 billion** of foreign capital invested in Chinese industry, which was a large percentage of the total capitalization of industry in China.) All of these sources of foreign exchange have been cut off or reduced. Furthermore, at present, China's potential exports are largely agricultural commodities, specialized metals, and native products -- none of which have unlimited possibilities of expansion.

Communist **China's** present problem of paying for needed imports is further complicated by the fact that a radical reorientation of China's foreign trade -- a shift from the West to the Soviet bloc -- has taken place, and there is considerable evidence that increased costs of transport and unfavorable terms of barter exchange mean that China must pay very high prices for **imports** from the Soviet bloc. To the extent that this is true, it forces China to export even more than would otherwise be necessary to pay for the equipment needed for its industrial development.

As a result of these factors, the Chinese Communists have had to use every possible means to develop exports -- mainly to the Soviet bloc but also to some non-Communist countries -- although this involves reducing the supplies of essential commodities available to the Chinese population. Even basic foodstuffs, such as grain, pork, and vegetable oils -- which are now in very short supply within China -- have been exported in sizeable quantities for the first time in modern Chinese history, and Chinese consumers have been confronted with serious shortages and have been offered inferior qualities of these foodstuffs.

By tremendous efforts and rigid controls, the Chinese Communists have restored their foreign trade to prewar levels, despite the embargo restricting trade with the West. By 1952 China's imports and exports probably totaled about U.S.\$2.15 billion; 72 per cent of this total was with the Soviet Union. Last year, imports and exports increased still further. In trade with Western countries, Communist China in the first half of 1953 increased its imports and exports to U.S.\$163 million and U.S.\$205 million, respectively -- compared to U.S.\$250 million and U.S.\$325 million for the whole of 1952. By the end of 1953, Communist China claimed that total foreign trade for the year was 36 per cent above 1952, and that 75 per cent of this trade was with the Soviet bloc. Efforts to push trade, particularly with Western countries, are continuing.

The percentage of total imports consisting of equipment and materials needed for industrialization has increased steadily. The Chinese Communists have restricted purchases of consumer goods to a bare **minimum**, and they claim that in 1953 "production materials" constituted 87 per cent of total **imports**. This means that to the maximum extent possible the Chinese are utilizing their limited resources of foreign exchange for imports related directly to their development program,

**All** of these facts indicate that the Chinese Communists are doing everything possible to **focus** foreign trade policies on the task of supporting their program of industrialization, but it seems inevitable that they will face a continuing problem of obtaining and paying for needed capital equipment from abroad. In the immediate postwar period -- before the Communist take-over in China -- one American estimate indicated that, for China to industrialize at the **pace** which Japan achieved during the early stages of its development, China would need **foreign** loans totaling over U.S.\$13 billion in the first ten years. Now Communist China is attempting to accomplish the task largely on its own, with almost no sizeable foreign financial assistance even from the Soviet bloc.

"Promote the Spirit of Hard Struggle." "Our country will industrialize itself and achieve Socialism step by **step**," said the official Peking People's Daily in an editorial-not long ago. "This is the greatest cause, unprecedented in the history of China. It is the most glorious task of-all patriotic people to struggle

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for this great cause, Everything for the building of the Fatherland -- **such** is our patriotic slogan of **today.**" It continued: "It is of course not easy to acquire the vast amount of funds required for **industrialization.**" It concluded: the "**small** betterment of today must be subordinated to the big betterment of tomorrow."

"**Promote** the Spirit of Hard Struggle" -- this was the title of the editorial, and this is the basic theme of Communist **China's** economic development program. The course which the Chinese Communists have adopted is a hard one, and the present generation of Chinese is being forced to sacrifice for the future.

*A. Doak Barnett*

TABLE I  
(Official Claims)

National Budget • Revenue and Expenditures

U.S. Dollar Figures

(Converted to U.S.\$ at Official Exchange Rates)  
(Figures in Millions of U.S.\$)

Revenue	1950 Final Claim	1951 Final Claim	1952 Final Claim	1953 Fore- cast	1953 Final Claim	1954 Fore- cast
Agricultural Tax (Public Grain)	807	917	1,082	1,084	x	1,013
Urban Taxes (Industrial & Commercial Taxes)	1,262	2,470	2,914	3,695	x	4,413)
Other <b>Taxes</b>	28	47	55	66	<b>x</b>	)
Earnings from State Enterprises	367	1,290	1,968	2,957	x	3,521
Income from Credit & Insurance	138	240	106	434	x	)
Other Income	359	1,045	1,858	1,629	<b>x</b>	849)
Total Revenue	2,961	6,009	7,983	9,865	9,103	9,796

Expenditures	1950 Final Claim	1951 Final Claim	1952 Final Claim	1953 Fore- cast	1953 Final Claim	1954 Fore- cast
Military Expenditures ( <b>National</b> Defense)	1,195	2,138	1,807	2,208	x(+)	2,225
Administrative Expenses	555	738	817	1,005	x	1,980'
Investment in State Enter- prises (National Con- struction)	733	1,483	3,087	4,374	x(-)	4,784
Cultural, Educational, Health Expenses, etc.	319	567	943	1,470	x	1,550
Other	75	102	241	154	x'	Note*
Total Expenditures	2,877	5,028	6,895	9,211	9,036	10,539

Sources: Po Yi-po report on the 1950 budget, December, 1949.  
Po **Yi-po** report on the 1953 budget, (containing also  
revised **data** on the budgets for 1950-1952),  
February 12, 1953.  
Teng Hsiao-ping report on the 1953 and 1954 budgets,  
June 17, 1954.

\* These figures, as given, have obviously been manipulated for

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propaganda purposes. The final figures for 1950, for example, differ greatly from the original forecast, (It was forecast in December 1949 that the 1950 budget revenue would total the equivalent of U.S.\$1,694 million, of which 41 per cent would come from public grain and 38.9 per cent from urban taxes. It was forecast that expenditures would total the equivalent of U.S.\$2,084 million, of which 38.8 per cent would be military expenditures, 21.4 per cent administrative expenses, and 23.9 per cent investments in state enterprises.)

Undoubtedly, not only have total figures been manipulated, but figures have probably also been shifted between different headings, and real expenditures in various categories have been concealed. Furthermore, past budgets have been revised on the basis of revenue received at a later date.

Terminology of classification has also been altered, and may account for further confusion. For example, in the 1953 and 1954 budgets the category "investments in state enterprises" has been changed to "expenditures on national economic construction," and it is not known if these are identical.

The figures used here are U.S.\$ figures, converted from Chinese currency figures at prevailing exchange rates, which undoubtedly inflate the U.S.\$ figures somewhat.

The latest 1953 budget claims admit that military expenditures were higher and investments in state enterprises lower than the original forecast.

The figures from 1952 on include subsidies for local government expenditures,

The above figures on the 1954 forecast do not include "revenue" "carried over" from last year's "surplus." (They use a figure for this equivalent to U.S.\$1,386 million.) "Other income" undoubtedly includes income from the 1954 bonds, claimed to be U.S.\$345 million by the end of April 1954. In the figures released on expenditures, there is no breakdown of "administrative" expenses and "other" expenses; the above figure under "administrative expenses" includes both,

TABLE II  
(Official Claims)

National Budget - Revenue and Expenditures

Distribution of Revenue and Expenditures

(Individual Items as Percentage of Total Revenue and Expenditures Each Year)

Revenue	1950 Final Claim	1951 Final Claim	1952 Final Claim	1953 Fore- cast	1954 Fore- cast
Agricultural Tax (Public Grain)	27.3	15.3	13.6	10.99	13.43
Urban Taxes (Industrial & Commercial Taxes)	43.6	41.9	37.2	38.13	45.05
Other Taxes					
Earnings from State Enterprises	12.4	21.5	24.7	29.97	35.94
Income from Credit & Insurance	4.6	4.0	1.3	4.40	
Other Income	12.1	17.3	23.2	16.51	5.58
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>

Expenditures	1950 Final Claim	1951 Final Claim	1952 Final Claim	1953 Fore- cast	1954 Fore- cast
Military Expenditures	41.5	42.5	26.2	22.38	21.11
Administrative Expenses	19.3	14.7	11.8	10.19	18.79*
Investment in State Enterprises	25.5	29.5	44.8	44.34	45.39
Cultural, Educational, Health Expenses	11.1	11.3	13.7	14.90	14.71
Other	2.6	2.0	3.5	1.56	Note*
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>	<b>100.0</b>	<b>100.0</b>

(1953 Forecast breakdown does not include "Reserve Fund" which equals U.S. \$654.03 million or 6.63 per cent.)

\*"Administrative" and "Other" expenses are not differentiated in the 1954 forecast.



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TABLE III  
(Official Claims)

National Budget - Revenue and Expenditures

Comparative Rises of Revenue and Expenditures

(Comparative Percentage Rise in Individual Items Since 1950)

(Index: 1950 = 100)

Revenue	1950 Final Claim	1951 Final Claim	1952 Final Claim	1953 Fore- cast	1954 Fore- cast
Agricultural Tax (Public Grain)	100	113.58	134.01	134.32	125.52
Urban Taxes (Industrial & Commercial)	100	195.72	230.88	292.75	349.68)
Other Taxes	100	165.64	196.45	234.14	)
Earnings from State Enterprises	100	351.20	535.71	804.92	959.40
Income from Credit & Insurance	100	173.43	76.61	313.78	)
Other Insurance	100	291.55	518.21	454.31	170.82 )

Expenditures	1950 Final Claim	1951 Final Claim	1952 Final Claim	Fore-	Fore-
Military Expenditures	100	178.99	151.30	184.81	186.19
Administrative Expenses	100	132.93	147.25	181.08	319.35*
Investment in State Enterprises	100	202.29	421.01	596.49	652.66
Cultural, Educational, Health Expenses	100	177.91	295.70	460.89	485.89
Other	100	136.55	322.64	206.35	Note*

\*In the 1954 forecast, there is no breakdown of "Administrative" and "Other" expenses.

TABLE IV  
(Official Claims)

National Budget - 1953 Expenditures (Forecast)

Expenditures on "National Construction"

U.S. Dollar Figures

(converted to U.S.\$ at Official Exchange Rates)

Item	Millions of U.S.\$	Percentage of Total Item
Total "National Construction" <sup>u</sup>	4,374	100.0
Industry	2,012	46.0
Agriculture, Forestry, Conservancy	497	11.4
Foreign and Domestic Commerce	189	4.3
Transport and Communications	627	14.4
Not Specified	1,047	23.9

\* \* \* \* \*

TABLE V  
(Official Claims)

National Budget - 1954 Expenditures (Forecast)

Expenditures on "National Construction"<sup>n</sup>

U.S. Dollar Figures

(Converted to U.S.\$ at Official Exchange Rates)

Item	Millions of U.S.\$	Percentage of Total Item
Total "National Construction"	4,784	100.0
Industry - Total	2,287	47.8
Heavy Industry	1,791)	78.3)
Light Industry	496)	21.7)
Agriculture, Forestry, Conservancy	507	10.6
Foreign and Domestic Commerce	541	11.3
Transport and Communications	746	15.6
Not Specified	703	14.7

TABLE VI  
 (on-Communist Estimates)

National Budget - Revenue and Expenditures

(1950-1952)

- A - U.S.\$ Figures, Estimates (Millions of \$)  
 B - Percentage of Revenue or Expenditure for  
 the Year  
 C - Percentage Rise of Item since 1950

Revenue	1950 A	1950 B	1950 C	1951 A	1951 B	1951 C	1952 A	1952 B	1952 C
Agricultural Tax (Public Grain)	1,200	41.3	100	1,300	30.5	108	1,600	24.4	133
Urban Taxes (In- dustrial & Commercial)	900	31.0	100	1,250	29.4	139	1,500	22.9	167
Other Taxes Earnings from State Enter- prises	367	12.6	100	1,200	28.2	327	1,400	21.4	381
Income from Credit & Insurance	138	4.8	100	240	5.6	174	200	3.1	145
Other Income	300	10.3	100	268	6.3	89	1,850	28.2	617
Total Revenue	2,905	100.0	100	4,258	100.0	147	6,550	100.0	225

Expenditures	1950 A	1950 B	1950 C	1951 A	1951 B	1951 C	1952 A	1952 B	1952 C
Military Expend- itures	1,750	50.8	100	2,775	49.8	159	2,500	33.2	143
Administrative Expenses	770	22.4	100	1,050	18.8	136	1,600	21.2	208
Investment in State Enter- prises	700	20.3	100	1,200	21.5	171	2,150	28.6	307
Cultural, Edu- cational, Health Expenses	150	4.3	100	250	4.5	167	590	7.8	393
Other	75	2.2	100	300	5.4	400	691	9.2	921
Total Expend- itures	3,445	100.0	100	5,575	100.0	162	7,531	100.0	219

Note: The non-Communist estimates cited in Table VI and Table VII have been made in Hong Kong by economists who prefer not to be quoted by name. The estimates are based on a careful study of available facts about the Chinese economy as a whole rather than on official Chinese Communist claims.

TABLE VII  
(Official Claims and Non-Communist Estimates Compared)

National Budget - Revenue and Expenditures

(1950-1952)

U.S. Dollar Figures  
(Millions of U.S.\$)

A - Communist Claims, Converted at Official Exchange Rates  
B - Non-Communist Estimate

	1950		1951		1952	
	A	B	A	B	A	B
Total Revenue	2,961	2,905	6,009	4,258	7,983	6,550
Total Expenditures	2,877	3,445	5,028	5,575	6,895	7,531
<b>Revenue</b>						
Agricultural Tax (Public Grain)	807	1,200	917	1,300	1,082	1,600
Urban Taxes (Industrial & Commercial Taxes)	1,262	900	2,470	1,250	2,914	1,500
Other Taxes	28		47		55	
Earnings from State Enterprises	367	367	1,290	1,200	1,968	1,400
Income from Credit & Insurance	138	138	240	240	106	200
Other Income	359	300	1,045	268	1,858	850
<b>Expenditures</b>						
Military Expenditures	1,195	1,750	2,138	2,775	1,807	2,500
Administrative Expenses	555	770	738	1,050	817	1,600
Investment in State Enterprises	733	700	1,483	1,200	3,187	2,150
Cultural, Educational, Health Expenses	319	150	567	250	943	590
Other	75	75	102	300	241	691