

The Budget and the Plan
in China Audrey Donnithorne



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In a country as vast as China, and one with provinces long accustomed to autonomy, each with its own sense of identity, a strong national government is essential for effective national economic planning.

But with increasingly complex planning, Maoist views on bureaucracy, the growth of local interests during the Great Leap Forward, and the problems that arose from the Soviet withdrawal of aid and the agricultural disasters of 1959-61, there has been a steady diminution of central revenues at the same time as the centre has the responsibility for the large and inflexible item of defence expenditure.

This timely and cogent monograph examines, with interesting historical parallels, the changes that took place in the relative economic powers of the central and local authorities in the period after the First Five Year Plan and their consequences for national economic planning.

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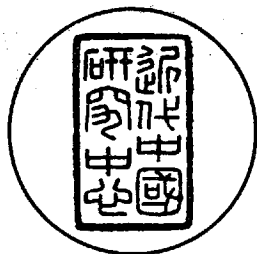
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The Budget and the Plan in China: Central-local economic relations

Audrey Donnithorne

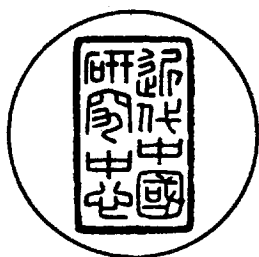


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The purpose of this monograph is to relate the reduced role and importance of national economic planning in China since the end of the First Five Year Plan in 1957, to the changes that have occurred in the division of budgetary resources between the central government and local authorities. It argues that the inability of the centre to implement an effective national plan is connected with the fall in the proportion of resources available to it and to the fact that a high proportion of the centre's available resources have been pre-empted for military purposes.

'The Industrial Capital Construction Plan is the core of the Five Year Plan . . . while the 156 projects which the Soviet Union is helping us to build are in their turn the core of our industrial construction plan'.¹ The text of China's First Five Year Plan went on to state that there would be 694 'above norm'² construction projects including those built with Soviet aid.³ Central ministries would control 612 of these projects while the remaining 82 would be under local authorities. Thus it was the central government, buttressed by foreign aid, which bore the brunt of the First Five Year Plan.

The First Five Year Plan, therefore, depended implicitly on a strong central government with sufficient means—whether of its own or from external sources—to undertake a substantial investment program. In the period of the First Plan, 1953–7, the central government fulfilled these requirements. Here we will examine the changes that took place in the relative economic power of the central and local authorities in subsequent years and the consequences of these changes in the sphere of national economic planning.

In this context, the colossal size of China must be borne in mind. Individual provinces are of the area and population of many of the major national states of

the world. Transport and communications—while much improved on previous centuries—are still very inadequate. At least in the core provinces—what used to be called China Proper—the provinces have habits of autonomy and strong consciousness of their own identities. This underlines the necessity for a strong national government if there is to be a significant economic plan on a national scale.

Several factors made China more amenable to central control during the First Five Year Plan period (1953–7) than at any other time before or since:

(a) The revulsion against the chaos of civil war and inflation that had preceded the Communist victory in 1949. The military and monetary unification of China were the great achievements of the early years of the regime and formed the basis for the relatively centralised rule of the succeeding years.

(b) The technical possibility of a higher degree of centralisation than hitherto created by modern means of transport and radio and telecommunications. The Communists were the first government of China in a position to make full use of these new techniques.

(c) The loans from the Soviet government made in the early 1950s. These loans were, of course, made to the central government, and like almost all forms of government-to-government aid, had the effect of strengthening the central government of the recipient country *vis-à-vis* its subordinate administrative units—in the case of China the provinces.

(d) The Communist Party which provided a disciplined force of cadres under central direction to control the political and economic administration.

From around 1957–8 these factors weakened and contrary tendencies came into play:

(i) As the economy grew, planning became more complex. In 1949 there had been only 3,145 state and joint state enterprises while by the beginning of 1958 there were over 60,000 of sufficient importance to be entered into state plans.⁴ Some of these were under local authorities but those directly under ministries of the central government were too numerous for its administrative capacity to control.

(ii) Mao strongly disliked the bureaucratic society which economic planning, on the Soviet model, entailed.

(iii) The ending of Soviet aid, and the repayment by China of the loans received earlier, lessened the resources at the disposal of the central government.

(iv) During the Great Leap Forward of 1958–9 the civilian Party apparatus took over the local administration. Instead of being a controlling group in the background, the Party committees at provincial and lower levels assumed a direct responsibility for the day-to-day administration of their localities. This meant, for example, that

it fell to the provincial Party Secretary to make his province's case in negotiations with Peking on such matters as transfers of revenue, of grain, and of commodities. Thus inevitably the local Party Committees became identified with local interests and ceased to be reliable agents for enforcing central policies. Instead there began the process of building up the 'independent kingdoms' and 'duchies' that were denounced in the Cultural Revolution.

(v) The agricultural disasters of 1959-61 subjected the whole administrative system to an immense strain. Pragmatic policies were essential to remedy the situation and these meant local policies to deal with differing local circumstances.

The weakening of central power was formalised in a series of decrees promulgated in 1957-9 on industrial and commercial management, grain distribution, finance, price control, and economic planning. The effect of these was to transfer to provincial control many enterprises (especially in consumer goods industries) that before came directly under the central government; to subject many remaining centrally-controlled enterprises to varying degrees of local influence; in commerce, grain administration, production, planning and finance to concentrate central control largely on inter-provincial transfers (including transfers between provinces and the central government) rather than for Peking to attempt control of total output, procurement, sales, revenue and expenditure within each province.

In the financial sphere, this meant that the centrally approved figure for a province's budgetary expenditure would be compared with the total revenue which that province was responsible for raising. If this calculation showed the province to be in deficit, it might receive a grant from the centre. If, as was more usual, the province had a surplus, a proportion of this had to be handed over to the central government. The transfers of revenue between provinces and the centre have been subject to hard bargaining, usually at annual conferences. The only revenues which the central government collected directly, as at 1959, were profits from its own enterprises and also customs duties. All other revenues were collected by local authorities.⁵

We will now examine what is known about the revenue and expenditure of the central government and local authorities respectively at different dates. Then we shall examine the extent to which investment in recent years has been undertaken by different levels of the administration and the implications of this for economic planning.

The Chinese national budget from 1956 onwards has included under each heading of revenue or expenditure not only the budgetary revenue and expenditure of the central government but also that of the local authorities from the provincial level downwards. The national budget is therefore an aggregate of the budgets of all levels of the administration. In addition to the items of revenue which appear in the budget, there are also 'extra-budgetary' funds from various sources. These

revenues, and the expenditures made from them, do not appear in the budgets. More will be said on this topic.

Budgetary revenue to 1958

For the years 1955-8 information available on the division of budgetary revenues between the central government and local authorities is as shown in Tables IA and IB.

Table IA Central and local budgetary revenue as percentages of total budgetary revenue*

Year	Column I		Column II	
	Central budgetary revenue (less sums remitted by local authorities)	Local authorities' budgetary revenue (less subsidies from centre)	Revenue collected by central government	Revenue collected by local authorities
1955	75 ^a	25 ^a	'less than 46' ^c	'over 54' ^c
1956	77 ^b	23 ^b	[c. 40 ^d]	[c. 60 ^d]
1957			44 ^e	56 ^e
1958			23 ^e	77 ^e

* For revenue, unlike expenditure, no information on the relative shares of the central government and of local authorities is available for 1959-60.

SOURCES: ^a *Collected Laws and Regulations* (in Chinese). . . , vol. 3, pp. 213, 206.

^b *Ibid.*, p. 225 (from planned budget).

^c *Ibid.*, vol. 2, p. 505. This reference shows the vagueness mentioned in Note d. Like d., it is also appended to the planned budget of its year.

^d *Ibid.*, vol. 3, p. 231. 'Local finance is an important component of national finance. About 60 per cent of the national revenue is collected by local authorities. . . .' This rather vague statement attached to the 1956 (planned) budgetary statement would seem to apply to the general practice of the time rather than specifically to the 1956 planned budget.

^e *Finance (Caizheng)*, October 1958, p. 1. Yang Shao-ch'iao. 'Financial Work must serve the Party's General Line'. The 1957 percentage presumably refers to the realised budget and the 1958 percentage to the planned budget.

Table IB* Central and Local Revenue (million yuan)

Year	Column I		Column II	
	Central budgetary revenue (less sums remitted by local authorities)	Local authorities' budgetary revenue (less subsidies from centre)	Revenue collected by central government	Revenue collected by local authorities
1955	22,915 ^a	7,443 ^a	14,349 ^{b,c}	16,844 ^{b,c}
1956	23,689 ^b	7,054 ^b	[12,299 ^b	18,449 ^b]
1957			13,509 ^a	17,193 ^a
1958			7,604 ^b	25,459 ^b

* Sources as given in Table IA and for 1957 and 1958. *Collected Laws and Regulations* . . . , vol. 7, pp. 117, 124. For 1955 and 1956 the figures include carryover from the budget of the previous year.

^a Refers to *realised* budget—see Table IA.

^b Refers to *planned* budget—see Table IA.

^c Figures given are for 46 and 54 per cent respectively of total budgetary revenue.

The discrepancy between the two sets of figures in Table 1 (Cols. I and II respectively) for 1955 and 1956 probably springs from the fact that at that period local authorities collected certain revenues on behalf of the central government. Thus in the first column these would be reckoned as central budgetary revenue but in Column II as revenue collected by local authorities.

Budgetary expenditure to 1960

The division of budgetary expenditure between the central government and lower authorities is reported in Tables 2A and 2B.

Table 2A Central and local budgetary expenditure as percentage of total budgetary expenditure

	Central government budgetary expenditure	Local authorities' budgetary expenditure
1955	78.1	21.9
1956	77.1	22.9
1957	72.0	28.0
1958 (planned budget)	56.0	44.0
1959	No figures available	
1960 (planned budget)	48.4	51.6

SOURCES: For 1955-6; Ko Chih-ta: *China's Budget During the Transition Period* (in Chinese), (Peking, 1957), p. 37. For 1957 and 1958: *Finance (Caizheng)*, No. 10, October 1958, p. 1; Yang Shao-ch'iao, 'Financial Work must serve the Party's General Line'. The figures for 1958 from this source presumably refer to the planned budget. For 1960: *Collected Laws and Regulations of the Chinese People's Republic*, vol. 11, p. 41.

Table 2B Central and local budgetary expenditure (million yuan)

	<i>Total</i>	<i>Central</i>	<i>Local</i>
1955	26,920	21,025	5,895
1956	30,580	23,577	7,003
1957	29,020	20,894	8,126
1958 (planned budget)	33,063	18,515	14,548
1960 (planned budget)	70,020	33,880	36,140

SOURCES: Totals: 1955-7: *Ten Great Years*, p. 23. 1958: *Collected Laws and Regulations*. . . , vol. 7, p. 124; 1960: *Ibid.*, vol. 11, p. 41.

Central and local figures calculated from figures in Table 2A except for 1960 where both absolute figures and percentages for central and local expenditure are given. The figures and percentages do not exactly correspond but are set down here as given in the source.

From Tables 1 and 2 it can be seen that by the time of the 1958 planned budget, the budgetary revenues directly collected by the central government (23 per cent of total revenue, i.e. some 7,604 million yuan) covered less than half of its budgetary expenditure (48 per cent of the total budgetary expenditure). The balance, some 10,911 million yuan, comprised revenues collected by provinces and lower authorities and remitted to the centre. After 1959 these remittances, according to the system decreed in that year, would have taken the form of the consolidated sums negotiated province by province.

A substantial part of central expenditure has been devoted to military purposes. At least until 1956, all expenditure entered in the budget under the heading 'national defence' is described as being central government expenditure.⁶ In 1958 the provinces were responsible for expenses incurred in levying conscripts,⁷ and this may have been the case in earlier years as well. If so, this must have been included under some other heading such as 'Administration'. Also, a large part of the expenditure on the nuclear program has not come under the budgetary heading of 'National Defence'. This is clear from a statement in the document 'The Ten Great Relationships' reported to have been written by Mao in April 1956. In this statement Mao said that if China was to make atom bombs the proportion of the budget devoted to military expenditure should be cut and an increase made in that spent on economic construction.⁸

Overt military expenditure as a percentage of the total budgetary expenditure of the central government is given in Table 3. As indicated above, a major part of the expenditure on the nuclear program must be added to these figures in order to get a more realistic total for the whole expenditure of a military nature. In addition, some non-nuclear military expenditure is included in other items in the budget and should also be added to the item of overt military expenditure.⁹

Table 3 Item 'National Defence' as percentage of total budgetary expenditure of the central government 1955-1960

	<i>Total central government budgetary expenditure (million yuan)</i>	<i>'National Defence' item (million yuan)</i>	<i>'National Defence' item as % of total central government expenditure</i>
1955	21,025	6,500	30.92
1956	23,577	6,120	25.96
1957	20,894	5,510	26.37
1958 (planned budget)	18,515	5,000	27.00
1960 (planned budget)	33,880	5,800	17.12

SOURCES: Table 2B and *Ten Great Years* (Peking, 1959), p. 23; and *Collected Laws and Regulations* . . . , vol. 11, p. 41.

Western estimates of the cost of China's nuclear program are very divergent: this is a field in which the figures are of no great significance because internal pricing in China bears no relation to world prices. If the import content of the program could be identified, or if a realistic assessment were possible of the opportunity cost of exports forgone, then a part of the cost could be measured by the yardstick of world prices, but this course is scarcely practicable. Here, it must be noted, we are not trying to assess the total economic significance of the Chinese nuclear program. For the purpose of unravelling the mysteries of the Chinese budgets, we would like to be able to estimate the price tags which, for reasons of accountancy, were put on expenditures under this program. This we cannot do. However, for the record, figures calculated by Western observers of the cost of the Chinese nuclear program include the following:

1. 'Much more than U.S. \$1,000 million' (2,370 million yuan) (*Current Scene*, vol. III, no. 16, 1 April 1965, p. 1).
2. £288 million (1,975 million yuan) for capital investment over 10 years (to produce a complex with annual capacity of 10 small bombs) (*Economist*, 15 January 1966).
3. 'More than U.S. \$200 million' (475 million yuan) (*Far Eastern Economic Review*, 29 October 1964, p. 237). A. Close: 'Bombs or Trousers'.

4. 1957-64: U.S. \$2,500 million (c. 5,900 million yuan) for both capital and operating costs.

Current operating costs: U.S. \$470 million (c. 1,100 million yuan) (*Military Review*, August 1967, p. 18. J. W. Barnett Jnr.: 'What price China's Bomb?' (J. W. Barnett's estimates are based on a type of opportunity cost calculation.)

5. 1961-1964: total of 5,000 million yuan. (Li K'uen-hou *et al.* in *Issues and Studies*, Taipei, 10 June 1965. Quoted in Yuan-li Wu and R. B. Sheeks: *The Organization and Support of Scientific Research* . . . , p. 213.)

These figures are more useful in indicating the width of the possible range of estimates than for any more precise purpose. As a rough rule of thumb, we may perhaps add 10-20 per cent for budgetary expenditure on the nuclear program to the overt military expenditure.

For the 1955 realised budget and the 1956 planned budget we have figures for separate items analysed according to expenditure by the central government or by local authorities. Unfortunately this information is not available for later years. These figures are set out in Table 4.

Table 4 Budgetary expenditure (million yuan)

<i>Item</i>	<i>Total (central plus local expenditure)</i>	<i>Central expenditure</i>	<i>Local expenditure</i>
<i>1955 (realised budget)</i>			
Totals	29,347*	22,915*	6,432*
Economic construction	13,762	12,012	1,750
Social services, culture and education	3,189	822	2,367
Defence	6,500	6,500	—
Administration	2,154	354	1,800
Other	3,742	3,227	515
<i>1956 (planned budget)</i>			
Totals	30,743	23,042	7,700
Economic construction	16,055	13,206	2,849
Social services, culture and education	3,916	1,325	2,591
Defence	6,141	6,141	—
Administration	2,411	443	1,968
Other	2,219	1,927	292

* A divergence will be noted between these figures and some figures given in Tables 2B and 3 which come from a later source and therefore must be assumed to incorporate subsequent revisions. However, as it is the earlier source which analyses central and local expenditure for 1955 and 1956, we have taken or deduced all the figures in this table from that source.

SOURCE: *Collected Laws and Regulations* . . . , vol. 3, pp. 213 *et seq.*

Economic construction accounted for around 60 per cent of central expenditure in 1955 and 1956. This heading covers the interest-free non-returnable grants both for investment and for current expenses in the economic sphere made to enterprises and institutions. (These current expenses include expenditure on research of many types, on some agricultural services, on meteorological services, road and river maintenance and so on.) We have figures for expenditure on economic construction in the realised budget of 1956 analysed by economic sector (but not according to whether expenditure was by central or local authorities nor whether it was for investment or current purposes). These figures are shown in Table 5.

Table 5 Budgetary expenditure under the heading 'Economic Construction', 1956 (realised budget)

		Million yuan	Total expenditure on economic construction %
<i>Total</i>	16,055		100
of which			
Heavy industry		7,760	48
Light industry		784	5
Agriculture, forestry, water conservancy and meteorology		2,185	14
Transport and postal services		2,896	18
Grain procurement, commerce (international & foreign) and banking		857	5
Urban services		388	3
Unaccounted for		1,185	7

SOURCE: *Statistical Work (Tongji Gongzuo)* 1957, no. 12, p. 31.

Local expenditure on economic construction (2,849 million yuan in the planned budget of 1956) went predominantly to agriculture, forestry, water conservancy and local transport.¹⁰ The bulk of the expenditure on industry must have been by the central government.

In 1957, and in the planned budget for 1958, central expenditure fell in absolute as well as in relative terms (see Table 2) under the impact of the decentralisation measures which transferred many enterprises (together with responsibility for capital grants to them) from the centre to the provinces. The figures in Table 2 underestimate the relative and absolute rise in local expenditure because they omit

extra-budgetary funds, which accrued more heavily to local than to central authorities. The chief use to which these funds were put was investment—i.e. for expenditure which had it been made from budgetary revenues would have been included under 'economic construction'. These extra-budgetary funds comprised certain important revenues, a major one being profits retained by enterprises and their controlling central ministries or local departments as the case might be. (Other sources of extra-budgetary funds were certain local surtaxes and fees.) In 1958 and 1959 investment made from extra-budgetary funds was estimated to come to the equivalent of 23 per cent and 19 per cent respectively of investment from budgetary funds by all levels of the administration. (In 1957 the corresponding figure had been only 4 per cent).¹¹

One significance of expenditure on investment is that it generates future income for the administrative unit (central government, province, etc.) controlling the enterprise in which the investment is made. Profits of enterprises, it will be remembered, form the largest component of both budgetary and extra-budgetary revenues.

In 1957 the central government spent some 21,000 million yuan, comprising 72 per cent of total budgetary expenditure. In that year the centre directly collected 44 per cent of the budgetary revenue (i.e. around 13,500 million yuan), so even then it was dependent on revenue transfers from the provinces to meet around a third of its expenditure. In the planned budget for 1958, under the impact of the decentralisation measures, the revenue to be directly collected by the centre fell to 23 per cent of the total (some 7,600 million yuan), while central expenditure was to amount to 56 per cent of the total (18,500 million yuan). Thus according to the 1958 budget, only 41 per cent of central expenditure was expected to be covered by its own directly collected revenue. In the event, revenue and expenditure in the realised 1958 budget were respectively around 27 per cent and 24 per cent above the planned budget, the increases being predominantly in the items of revenue from enterprises and of expenditure on economic construction respectively. We do not have an analysis of the increases according to whether they occurred in central or local budgets but from those provincial level budgets which we have for 1958 (e.g. Shanghai, Peking, Szechuan, and Inner Mongolia) we may surmise that local increases accounted for most if not all of the rise owing to the rapid burgeoning of local industry during the Great Leap Forward. However, the centre's revenues, and its expenditure, probably also rose, and if total budgetary revenue had continued to rise, the centre could still have been able to support a large investment program. The planned budget for 1960 in fact envisaged central expenditure of 34,000 million yuan (82 per cent above the 1958 planned budget figure for central expenditure) out of total budgetary revenue of 70,000 million yuan. (See Table 2B.) However, a former official of the Ministry of Finance has stated that, owing to the economic difficulties of that year, the Ministry 'in its appraisal of the worsening conditions,

had to admit that the annual revenues would, at best, amount to little more than 30,000 million yuan'.¹²

The budget in the 1960s

From 1960 onwards very little information is available about the Chinese budget. Up to 1960, and inclusive of the planned budget of that year, the current year's budget, together with the final accounts (i.e. the realised budget) of the previous year were presented to the National People's Congress for approval, and reports on these budgets, including the chief figures, were published. Since 1960, for some but not all years, there have been bare announcements of the approval of the planned budget and final accounts. The Ministry of Finance cadre mentioned above thought that in the three or four years after 1960 the revenues may have remained at about the same level—that is around 30,000–40,000 million yuan for both the centre and local authorities together.¹³

From 1960–2 the central budget may have been in deficit to a total of 2,000 million yuan.¹⁴ Among the charges brought against Liu during the Cultural Revolution were that he had 'forged a big budget deficit'¹⁵ and (or alternatively) that he had encouraged deficits.¹⁶ Given the steep fall in output, both agricultural and industrial, that occurred in the years after the Great Leap, it would seem likely that a deficit did occur. The Chinese government has attached great importance to keeping the budget balanced, or in slight surplus. In common with all countries that have had recent experience of hyperinflation, the fear of inflation is acute. Thus even before Liu's discovery of the deficit, an order had gone out in 1961 to discontinue all capital works in progress as well as all plans for investment projects, except for special cases.¹⁷

These economies must have contributed to the small budgetary surplus said to have been achieved in 1963. In the next four years, reports indicate that budgets were balanced.¹⁸ Some surprise may be felt that this was the case for 1967, when the Cultural Revolution was at its height. However an overall balance in the national budget could be consistent with a deficit in the budget of the central government if this was counterbalanced by surpluses in provincial budgets. Such a situation—the existence of a central government deficit—would also have been compatible with the possibility that the centre's percentage of total budgetary expenditure might have increased in the early 1960s even though its percentage of total budgetary revenue had remained constant or decreased.

In the early 1960s, the central government's total revenue (i.e. directly collected revenues plus transfers from provinces) probably fell proportionately even more than those of local authorities. The 1958 planned budget had envisaged the centre relying on transfers from the provinces to cover nearly 60 per cent of its expenditure. During the crisis years, these transfers must have been much harder to enforce.

Profits and tax receipts from heavy industry probably fell in these years proportionally more than those from light industry. Both sectors of industry suffered from lack of raw materials, but heavy industry also was affected by the fall in demand for its products consequent on the cut in investment. It is probable that the revival in the output of heavy industry followed after that of light industry as it was not until around the mid-1960s that investment appears to have revived, although the upturn in the output of consumer goods came about in 1962. For some years much of industry still operated below capacity, with a discouraging effect on investment. While it would be wrong to equate central enterprises with investment goods industries and local ones with consumer goods industries, the 1957-8 decentralisation had handed over to local authorities the bulk of the consumer goods industries while retaining for the centre the large heavy industry plants, which, as far as civilian requirements were concerned, were making almost entirely investment goods. Centrally controlled industry included a large military component which of course did not yield revenue, as the central government was itself the sole ultimate customer.

Profit margins in consumer goods industries seem on the whole to have been higher in China since 1949 than those in investment goods industries, although the difference has probably not been so marked as in the Soviet Union. More especially has this been the case when profits are calculated on capital rather than (as in official Chinese accounts) on cost. In 1957-8, therefore, the local authorities gained control of the sector of industry where the profit margin was highest, which was one reason why they had (both from budgetary and non-budgetary revenues) more funds for investment than did the central economic ministries. These new investments in turn generated fresh income for the investing authority. In this way the enrichment of the local authorities relative to the centre was a cumulative process.

The provinces evidently before long acquired control of more revenues than envisaged by the financial decentralisation decree of 1957. According to this decree, for example, rich provincial-level authorities such as Shanghai, Peking, and Liaoning were not to benefit from the additional sources of revenue which were being given to poorer units.¹⁹ However, figures for the revenue retained by the Municipality of Shanghai for 1957, 1958, and 1959 indicate that in fact Shanghai at least was able to arrange matters otherwise because its budgetary revenues increased twentyfold between 1957 and 1959 as shown in Table 6.

Table 6 Total Revenue of the Municipality of Shanghai (million yuan)

1957	370
1958	1,492
1959	7,458

SOURCE: Nai-ruenn Chen: *Chinese Economic Statistics* (Chicago, 1967), p. 450.

On top of these budgetary revenues, Shanghai must have enjoyed substantial receipts from extra-budgetary funds. Shanghai's increased transfers to the central government took most, but not all, of the additional budgetary revenues accruing to the Municipality; at the same time these substantial payments increased Shanghai's national importance and influence.

Thus on the revenue side the centre's relative position was weakening. As far as expenditure is concerned, the outstanding difference between the centre and the local authorities is that the central government has a considerable portion of its budget committed to military requirements. This expenditure, unlike investment, does not lead to increased income in future years. In the planned budget of 1960, overt military expenditure stood at 5,800 million yuan, some 17 per cent of the centre's planned expenditure. In addition was a large part of the expenditure on the nuclear program (see pp. 6-7, above). If, in the realised budget for that year, central revenue fell in the same proportion as total national revenue, i.e. from 70,000 million to 30,000 million yuan, then overt military expenditure plus the

Table 7

<i>Planned budget of 1960</i>	<i>million yuan</i>	<i>Hypothetical realised budget of 1960</i>
Total Revenue	70,000	30,000
Total Central Revenue	33,900	14,400
of which		
directly collected by centre	16,100	6,900
Transfers from local authorities	17,800	7,500
Budgetary Item 'Military Expenditure' (¥ 5,800) as % of central revenue:	17%	40%
'Military Expenditure' plus extra 10% for nuclear program (¥ 6,380)	19%	44%

SOURCES AND DERIVATIONS:

Total Revenue in Planned Budget 1960: *Collected Laws & Regulations*. . . , vol. 11, p. 40.

Total Revenue in Hypothetical Realized Budget: Richard Diao: *Communist China's Finance in 1964*, p. 3 (mimeographed paper published by Union Research Institute, Hong Kong).

Total Central Revenue in Planned Budget of 1960: *Collected Laws and Regulations* . . . , vol. 11, p. 41.

Percentage Collected by Centre—The percentage given in Table IIA for the planned budget of 1958 is assumed to hold good for the planned and realised budgets of 1960.

Transfers from Local Authorities—The difference between total central revenue and that raised directly by the Centre.

Military Expenditure—*Collected Laws and Regulations* . . . , vol. 11, p. 41. As argued above (p. 6) the budgetary item 'national defence' does not include much of the expenditure on the nuclear program; this is arbitrarily estimated at 10 per cent of the conventional military expenditure (see p. 8 above).

nuclear program may have amounted to over 40 per cent of the central government's revenue. This is on the supposition, which seems likely owing to tension with the Soviet Union, that military expenditure was not cut, or not severely cut.

The realised budget of 1960 may be surmised to have been something as suggested in Table 7.

The figures for the Hypothetical Realised Budget probably overestimate central revenues (see argument above) and may also underestimate expenditure on the nuclear program. These figures must not be taken as more than a crude attempt to quantify the straitened condition of the central budget in that year. It should be borne in mind that the central budget in 1960 was almost certainly in deficit (see p. 11 above) and therefore military expenditure would have formed a smaller percentage of central expenditure than of central revenue. For the three or four years after 1960, total budgetary revenues are thought to have remained between 30-40,000 million yuan.²⁰ From 1964-5 total budgetary revenues are likely to have risen considerably, with some check in 1967-8 due to the Cultural Revolution; this check affecting more especially central revenues such as profits from the railways. From 1969 the rise is likely to have been resumed. Local revenues appear to have been the predominant beneficiary of the rises since 1964, owing to the cumulative nature, already discussed, of their revenues from enterprises. The growing autonomy of the provinces, exemplified and exacerbated by the Cultural Revolution, must have weakened the centre's position in negotiating for revenue transfers. At the same time, the worsening of relations with the Soviet Union, and the development of the nuclear (and space) program must have resulted in a rise in military expenditure after 1960, although perhaps not to the total of around 12,000 million yuan estimated by some western observers.²¹ Be that as it may, there is clear evidence of the centre's lack of financial resources. The central government's administration has been drastically pruned, with ministries being amalgamated and central officials reduced from 60,000 to 10,000 in the course of the Cultural Revolution.²² The definition of 'official' here used is not known, but the numbers even before the Cultural Revolution would seem to be extremely small for the central administration of so vast a land as China. It indicates how few tasks the centre has performed in recent years and how those have been cut down still more since the Cultural Revolution.

Further evidence that the balance of financial power has swung strongly in favour of the local authorities comes from the fact that reports of investment since the Great Leap—and even more since the Cultural Revolution—have shown a heavy predominance of local projects, undertaken by provinces, municipalities, special districts, *hsien* and communes, brigades and teams. This indicates where the money now is. Indeed the number of reports of new investment at sub-provincial levels suggest that these have been gaining in significance relative to the provinces. Such

central investment projects as have been recorded in recent years have been largely in transport (e.g. some railway buildings, a few key bridges and shipbuilding—with talk of establishing an international airline) or in oil (Taching) with some expansion of steel capacity. Central investment has occurred in water conservancy projects but the largest projects—such as the Yellow River Scheme—which only the central government could implement, have hung fire except for portions which could be carried out locally.

Instead of attempting to spread its scarce resources widely, the central government has concentrated on particular sectors and programs—internally on transport, for example (which by its nature has a unifying effect on the country) and externally on selected foreign aid projects. The nuclear program (perhaps cheaper than an overall modernisation of the armed forces) was presumably considered 'the best buy' at the price for both internal and external prestige as well as for defence purposes.

A contributory factor in China's *rapprochement* with the West may be the desire to get long-term credits. These would not merely add to the investment resources of the country as a whole, but would specifically assist those projects which were of special interest to the central government. Like the Soviet loans in the 1950s, Western credits would strengthen the centre relatively to the provinces.

It might be thought that the central government would gain even in purely financial terms from the 'spin off' from its heavy investment in technologically advanced military industry such as the nuclear program. Knowledge and experience gained in this might be expected to be beneficial in the development of civilian industry. In the United States and the Soviet Union these 'spin off' effects are said to have been considerable. However, in China their importance is likely to have been much less. The great bulk of Chinese civilian industry is so far behind the technologically advanced military sector that it is seldom in a position to use the knowledge and experience obtained there.

Conclusions

The present central government of China has found itself in the same quandary as its Ching predecessor. In late Ching times

the share of the potential fiscal resources of the country which the central government could control was largely inelastic. . . . In contrast to Meiji Japan, where the land-tax revision of 1873 brought the major revenue sources of the country under the direct control of the new central government, the late Ching government was politically incapable of extending its control of the revenue.²³

Now, also, the more readily expandable sources of revenue have been in the hands of local authorities.

Certain factors in post-1949 China have exercised a strong tendency in this direction:

1. The ideological precept that all enterprises (apart from some under collective ownership) must be run by the state—i.e. by some level of the state administration.
2. The fact that, at China's stage of development, many enterprises especially in consumer goods, are very small and cannot be run from the centre. They are therefore operated by local authorities. This sector of industry is that in which profits on capital are likely to be highest.
3. The centre can then draw on the taxable capacity of these industries only through taxing the local authorities controlling them—and it is much more difficult for the central government to tax local authorities than to tax private corporations or individuals. In India (an underdeveloped land with a large private sector) or in the USSR (socialist, but developed) or in the United States (developed, with a predominant private sector) the central government's sources of revenue are more readily expandable. In a large underdeveloped socialist country this tendency must almost inevitably be weaker.

The central government of China is thus in the position of a mediaeval king not able to live 'off his own'. Instead of 'his own' being the rents and profits of the royal demesne, in the Chinese case it is the profits of the centrally-controlled enterprises. As the King had then to extract funds from his feudatories, so the Chinese central government has to press the provinces for transfers of revenue.

Two further points must again be stressed:

- (i) The degree to which, in such a situation, the central government's financial position is weakened by the fact that it has the responsibility for the large inflexible item of military expenditure.
- (ii) The cumulative aspect of the relative enrichment of the local authorities: 'to him that hath shall be given'. Both the centre and local authorities have a high marginal propensity to invest. Therefore a shift of income from the centre to local authorities, such as occurred in 1957–8, led to a significant rise in the local authorities' investment ratio at the expense of that of the central government. This meant that in future years the relative growth of local income was greater. (This effect explains the revived importance—economic and political—of Shanghai.)

Certain sectors of the economy—for example foreign trade—are more amenable to planning than the economy as a whole. However, as the First Five Year Plan stated, the core of a national plan is a number of large co-ordinated investment projects. These are not likely to be feasible again in China unless substantial foreign credits are once more obtained. In China at present, and over the past decade, most investment has been by enterprises themselves or by local authorities—that is by twenty-nine provincial level units, around 150 special districts, some 2,000 *hsien*, besides a large number of municipalities. It is possible that planning of the Soviet

type is being undertaken by some local authorities, perhaps by some of the more economically advanced provinces or municipalities. A national plan of sorts could be drawn up by laying down certain guidelines²⁴ and then listing the totals of the presumed or estimated output increases (or capacity increases) in different sectors which all local authorities are likely to achieve in a given period and adding something about such projects as the centre can afford. To weld the plans, if any, of this multitude of disparate authorities into a co-ordinated national plan would be a superhuman administrative feat. In any case it would clash with the improvisation and spontaneity stressed by 'Chairman Mao's great principal of self-reliance', which in practice as well as in precept has been the keynote of economic policy in China in the period immediately after the Cultural Revolution.

Notes

- 1 The author wishes to acknowledge the help, received from many colleagues and friends, who have read this paper or with whom she has discussed it.
- 2 *First Five-Year Plan for the Development of the National Economy of the People's Republic of China in 1953-1957* (Peking, 1955), p. 38.
- 3 Capital projects are classified as above or below norm, according to whether the capital cost is above or below a set figure which varies according to industry and economic sector. Different forms of control have been applied to above and below norm projects.
- 4 *Economic Research (Jingji Yanjiu)*, no. 3, March 1958, p. 33. Ch'en Ta-lun: 'The Change in our Country's Industrial Administrative System'.
- 5 For further details of the budgetary system see A. Donnithorne: *China's Economic System* (London, 1967), Chapter 14.
- 6 Ko Chih-ta: *China's Budget During the Transition Period*, p. 38.
- 7 *Finance (Caizheng)*, no. 1, January 1958, p. 1. Jung Tze-ho: 'Some Problems in the Reform of the Financial Administrative System'.
- 8 This document is translated in Jerome Ch'en's *Mao* (Great Lives Observed series, New Jersey, 1969), pp. 65-86.
- 9 Yuan-li Wu and R. B. Sheeks: *The Organization and Support of Scientific Research and Development in Mainland China* (New York, 1970).
- 10 *Collected Laws and Regulations . . .*, vol. 3, p. 225.
- 11 For sources and further information on extra-budgetary funds see A. Donnithorne: *China's Economic System*, pp. 389-93..
- 12 Richard Diao: *Communist China's Finance in 1964*, p. 3. (Union Research Institute, Hong Kong, 1965, cyclostyled.)
- 13 Ibid. See also Yuan-li Wu and R. B. Sheeks: *The Organization and Support of Scientific Research . . .*, p. 169.
- 14 Liu Shao-ch'i is reported to have stated in a self-examination that the central working conference over which he presided in

- February 1962 discovered a deficit of 2,000 million yuan in the central budget. (*Leading Counter-revolutionary Revisionists: Selected Edition on Liu Shao-ch'i's Counter-Revolutionary Revisionist Crimes*—pamphlet published by the Liaison Station 'Pledging to fight a Bloody Battle with Liu-Teng-T'ao to the End' attached to August 18 Red Rebel Regiment of Nankai University April 1967—in *Selections from China Mainland Magazine* no. 652, p. 22.)
- 15 *Ching kangshan (Ching kang Mountain)* 18 April 1967: 'Drag Out Liu Shao-ch'i and Show him to the Public'. *Survey of China Mainland Press* no. 3946.
 - 16 *Peking Review*, 18 July 1969, p. 10. Hung Yin-hang: 'Great Victory for Mao Tsetung Thought on Financial and Monetary Front'.
 - 17 *Seventy Important Points of Communist Industrial Policy, 1961* (from Taiwan source), nos. 3 and 4.
 - 18 *Peking Review*, 3 January 1964, p. 7, 1 January 1965, p. 10, and 30 July 1965, p. 3; NCNA 3 January and 30 December 1966 and 30 December 1967.
 - 19 For details and sources see A. Donnithorne: *China's Economic System*, p. 396.
 - 20 Diao, *Communist China's Finance in 1964*, pp. 3–4.
 - 21 Institute of Strategic Studies, London: *The Military Balance 1970–71*, p. 57.
 - 22 Chou En-lai to Edgar Snow—*Epoca*, February 1971, p. 23.
 - 23 Albert Feuerwerker: *The Chinese Economy circa 1870–1911* (Michigan Papers in Chinese Studies No. 5, Ann Arbor, 1969), p. 67.
 - 24 E.g. one such guideline which can tentatively be identified as probably being in the Fourth Five Year Plan is that 'the key points of industrial construction must be shifted to the raw materials of iron and steel and to the development of the mining industry'. (BBC Summary of World Broadcasts FE/3655/BII/5, 8 April 1971 Hunan Provincial Radio 5 April 1971.)

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