

## October 22, 1954

# Abstract of Talk between Nehru, Chen Yun, and Vice Premier Li Fuchun

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### Summary:

Record of conversation between Indian and Chinese delegations, on a wide variety of issues in China. Conversation covers the structure of Chinese government, management of the bureaucracy, handling of finances, and plans for improving education and productivity levels.

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### Original Language:

Chinese

### Contents:

- English Translation

## Abstract of Talk between Nehru, Chen Yun, and Vice Premier Li Fuchun

(Already read by Comrades Chen Yun and Li Fuchun]

Time of talk: 22 October 1954, 9:00 – 11:15 a.m.

Indian participants: Nehru, Bi-cai [sic], Raghavan, Bai-chun [sic]

Chinese participants: Chen Yun, Vice-Premier Li Fuchun, Bureau Chief Xue Muqiao, [illegible] Shuowang (translator), Qian Jiadong (recorder)

**Chen [Yun]:** [We] have received the list of questions from the Premier; would it be all right to give answers in accordance with this list?

**[Jawaharlal] Nehru:** What I wanted was written materials and documents, but just talking is fine, too.

**Chen:** Vice-Premier Deng Zihui will answer the questions about the countryside (twelve and thirteen), and Vice-Premier Li Fuchun and I will answer other questions respectively.

*First Question<sup>ii</sup>: How the plan is formulated; Overall arrangement of the plan and its different levels; Contact with provincial and local authorities. Status of the Central Bureau of Statistics. Report on what measures are used for implementing the plan.*

**Li [Fuchun]:** Our whole method of planning is, first the Planning Commission formulates control figures,<sup>iii</sup> then they are distributed down through two systems—from various central government departments to enterprises under their direct jurisdiction, and from various levels of local government to various counties—to serve as the source from which to formulate plans for each work unit. Then the rough drafts of the plans are sent [back] up, and the Planning Commission collects and comprehensively synthesizes [them] and formulates a draft of the state plan; after the State Council approves it, [the plan] is transmitted down to industrial and agricultural enterprises and all counties to be implemented. There are also planning and statistics organs at every level of local government.

**Nehru:** What is a county? How many levels of local government are there? Where does the plan come from at the very beginning? From the counties? Then it goes to the central government, then comes back down? How much autonomy do provinces have?

**Chen:** Where the state plan is concerned, local government only includes provinces, centrally administered municipalities and counties. The plan starts from the counties at the very beginning, then goes to the provinces and to the central government. Of course the government can regulate and control local budgets, manage local industries, etc., and supervise state industries.

**Nehru:** All levels of local government have planning organs; are they in direct contact with the central government, or do they have to go through the local government?

**Li:** There is dual leadership; the [planning organs'] professional work is under the direct leadership of the State Planning Committee, and administrative issues are under the leadership of the various levels of local government.

**Nehru:** Does the central government have a Bureau of Statistics?

**Chen:** Yes, Xue Muqiao is the head of it.

**Nehru:** Does it have branches in every province?

**Xue:** Every province and municipality has a statistics bureau, and every county has a planning and

statistics section.

**Nehru:** Is the population of 600 million surveyed? Is it a general or partial survey?

**Xue:** A survey is done by consolidating [voter registration information] from elections; 2.5 million people were mobilized to do this work.

**Nehru:** What is the legal voting age?

**Xue:** Eighteen.

**Nehru:** So only the population over the age of eighteen is surveyed?

**Xue:** The entire population is surveyed; population registration is carried out first, then voter registration.

**Nehru:** A survey is carried out across the country?

**Xue:** Yes.

**Nehru:** Every person in every household is registered?

**Xue:** Yes, except for a small number of localities like Chamdo, Tibet and Taiwan.

**Nehru:** When was the last census?

**Xue:** There weren't any formal population surveys in the past; this is the first one in history.

**Nehru:** I remember I read a book that said there was a census in China one hundred years ago. Besides the general survey, is there also a typical sample survey?

**Xue:** First there's a general survey, then a 9 percent sampling survey.

**Nehru:** What is the difference?

**Xue:** Very little, only several per thousand.

**Nehru:** India had at least a seventy- or eighty-year history of surveys under British rule. We gradually got some experience; we discovered that when the census was held and every household just answered with a number [of persons in the household], it differed considerably from the actual number.

**Xue:** We have to register and fill out forms.

**Nehru:** We discovered that having trained people conduct a sampling survey was a more correct method than mobilizing hundreds of thousands or millions to conduct a general survey.

**Xue:** We have some surveys that are done using the sampling method, too.

**Nehru:** How is the plan implementation situation reported to higher levels?

**Xue:** Lower levels report to higher ones through a system of report forms, and higher-level [authorities] send people down to investigate.

**Nehru:** Does the same organ do both the [illegible] and reporting?

**Li:** We don't have special inspection organizations, so higher authorities send people to

investigate, and the Ministry of Supervision also investigates.

**Nehru:** Of course, but ministries often like to exaggerate accomplishments.

**Chen:** We have this kind of situation, too; after it is discovered, the Ministry of Supervision can investigate it.

*Second Question: The Plan's Scope: Does the plan broadly encompass the entire national economy, or the public sector (including regular costs and development costs), or does it just include public sector development costs, like India's first five-year plan?*

**Li:** China's state plan is directed mainly at state-owned enterprises.

**Nehru:** Does the plan for state-owned enterprises have separate parts concerning what already exists and what has to be developed?

**Li:** It has both those parts—that is, the two parts of production and infrastructure.

*Third Question: Fiscal Resources—Main methods of raising development capital; the relative proportion of business (or purchase) tax to direct tax, the return of public corporations' profits [to the government].*

**Chen:** I would like to use the various sources of income in the 1954 budget to illustrate the question more clearly.

The total income for the 1954 budget was about 9.3 billion U.S. dollars, of which the industrial and commercial tax comprised 45.05 percent.

**Nehru:** Does that include both state-owned and private enterprises?

**Chen:** Yes.

**Nehru:** Does that [figure] include the profits from state-owned enterprises?

**Chen:** It's not included in the industrial and commercial tax [figure].

Land taxes comprised 12.1 percent. Profits from the state-owned industrial and commercial sector, communications and transport sector, etc., comprised 35.94 percent, government bonds comprised 3.84 percent, and others comprised 3.07 percent.

Taxes and profits paid to the government by the socialist part comprised 66 percent of the total income, and taxes paid to the government by the private industrial and commercial sectors comprised 15.4 percent; the rest includes the agricultural sector tax and so forth.

**Nehru:** The socialist part is state-owned enterprises?

**Chen:** Yes. So the state's main income is from the state-operated economy.

**Nehru:** What is the industrial and commercial tax, mainly?

**Chen:** The business tax is 1-3 percent. ... [\[iii\]](#)

**Nehru:** Is it added on when consumers purchase things?

**Chen:** No, it comes from the sellers, but in essence it is still borne by the consumers.

**Nehru:** Is the income tax the personal income tax?

**Chen:** It's the net profit income tax on private industrial and commercial enterprises. ...

**Nehru:** What percent?

**Chen:** The highest is 30 percent. We did not collect a personal income tax.

**Nehru:** Was it ever collected in the past?

**Chen:** The Guomindang [Kuomintang] had it for a short time, but it wasn't workable.

**Nehru:** Yes, there was tax evasion.

**Chen:** We have tax evasion now, too. Ambassador Panikkar once said, our income tax is very low.

**Nehru:** Is that so? It depends on how you compare it - in India the income tax has exemptions; it's a progressive [tax], with the highest reaching 90%.

**Chen:** There's another—the commodity tax. ...

**Nehru:** Do big and small factories pay the same tax on their products?

**Chen:** Yes, but [the tax on] cooperatives' products is relatively low.

**Nehru:** What about the handicrafts industry?

**Chen:** The small handicrafts industry doesn't pay taxes.

**Nehru:** What percentage is collected for the commodity tax?

**Chen:** It's higher for luxury goods, lower for every day-use goods; in the past China relied mainly on customs and supervision taxes for tax revenue.

**Nehru:** In the end it's the consumer who pays for this, too?

**Chen:** Yes. Besides this there is a customs tax and supervision tax; the supervision tax is lower than it used to be.

**Nehru:** All of these are indirect taxes.

**Chen:** The agriculture tax and income tax are direct taxes. Indirect taxes comprise about 70 percent, and direct taxes (including the agriculture tax) comprise 30 percent. State-run enterprises do not pay the state in the form of direct taxes, but they pay all their profits.

**Nehru:** State-run and private enterprises pay the same taxes; do state-run enterprises calculate costs the same way private enterprises do?<sup>[iv]</sup>

**Chen:** The tax revenue is the same; pricing must be done with consideration for [what] the market [can afford].<sup>[v]</sup>

**Nehru:** Of course, private enterprises' prices have to show consideration for the market, too. State-run enterprises can't depend on subsidies for success. Do state-run enterprises keep a portion of their profits for business development?

**Chen:** 0.1 to 0.3 percent of a factory director's fund goes to worker benefits. <sup>[vi]</sup>

*Fourth Question: The current plan's investment rate (calculated in terms of current prices, or, if possible, as a percentage of (net) national income).*

**Chen:** [Let's] use the expenditures in the 1954 budget to look at this question. Our national income cannot yet be correctly calculated; total expenditures were about 10 billion U.S. dollars....

**Nehru:** What I'd like to understand is, how much was investment?

**Chen:** Out of 10 billion U.S. dollars, industry, agriculture, communications and transport, business and municipal administration investment comprised 45.39 percent....

**Nehru:** Does that include both the central and local?

**Chen:** A very small portion of the local is not included....

**Nehru:** When the budget is being made, the local portion is absorbed into [the calculations]?

**Chen:** Yes; sending teachers to underdeveloped areas (*zhi jiao*), sanitation and [government] relief comprised 14.71 percent, national defense comprised 21.11 percent, administrative expenses 9.57 percent, loan repayment 3.06 percent, the general reserve 6.11 percent. The [budget] deficit this year is 700 million U.S. dollars, but between 1950 and the end of last year 1.7 billion dollars were put into the general reserve.

**Nehru:** How much of the expenditure is on new development? This is a standard for measuring economic development; it isn't clear from the aforementioned figures.

**Chen:** 45.39 percent was all used for investment; of this, repair costs were a very small portion.

**Nehru:** Underdeveloped countries' investment is very low; it seems there are certain obstacles, but once these obstacles are overcome, it's very fast—like the Soviet Union was slow in the past, and now it's fast. The United States is also fast, regardless of how the American system is or whether it invests domestically, abroad or throws it into the sea. To increase investment, it is necessary to reduce the supply of commodities. But for countries like China and India that have a lot of peasants, there are certain limits; how can this conflict be overcome? Last year the Soviet Union's Malenkov said that [they] are going to develop light industry; that shows that in the past the emphasis was on developing heavy industry. To what degree can people endure it if the method of reducing consumption is used?

**Chen:** Heavy industry and light industry must be developed in a balanced way; this is very important. But as to whether China should first develop heavy or light industry, we think it necessary to first develop heavy industry, because this is the foundation of industrialization.

**Nehru:** Of course; any plan should begin with heavy industry.

*Fifth Question: How resources are distributed among the following sectors: power and fuel; manufacturing equipment; consumer products (factories); handicrafts; transport; communications; agriculture (mechanized); agriculture (small-scale); irrigation; health; education; scientific research.*

**Nehru:** Let's not discuss this one; please supply the [relevant] written materials later.

*Sixth Question: The dividing line between the state and private business sectors; in what sectors are private individuals permitted to make new investments? Are there sectors in which only public investment is allowed?*

**Chen:** In terms of the law, there are no sectors in which the private business economy is not permitted. Over the past five years, private investment has increased in certain sectors, like textiles, small machinery manufacturing and education and office supplies, but state business investment is much greater.

**Nehru:** If a private merchant wants to start a textile factory, do they need to get approval?

**Chen:** Yes, but the government welcomes [this kind of venture] very much.

**Nehru:** But what if it's not in the [state] plan?

**Chen:** At this point we only care that there are too few factories, including in the heavy industry sector.

**Nehru:** But what is done if a private businessperson wants to be involved in light industry outside of the plan?

**Chen:** It can't be forbidden; [we] are on the first draft of the plan, and still don't know just how many [of these cases] there are.

*Seventh Question: State-run enterprises: How are these enterprises run? To what degree is administrative management of these enterprises decentralized?*

**Li:** There are two systems - one is state-run enterprises under the direct jurisdiction of the central government, and the other is local state-run enterprises. All state-run enterprises are managed in accordance with the state plan.

**Nehru:** Are they run by central government ministries, or independently by the enterprises [themselves]?

**Li:** They are run independently under the state plan.

**Nehru:** They don't have to get instructions for everything [they do]?

**Li:** No.

*Eighth Question: What are the different forms of cooperatives? How are they organized and supervised? Which sectors, in the main, are run by cooperative enterprises? Overall development policy.*

**Li:** Besides agricultural production cooperatives, there are three kinds of cooperatives: supply and marketing, credit, and handicraft industry cooperatives. All of these are organized independently by individual laborers in accordance with the charter; there are general supply and marketing cooperatives at the township, county, provincial and central government levels. Their duties are mainly commercial activities, supplying the peasants' manufacturing and living needs, and marketing the peasants' leftover products. ...

**Nehru:** Are the numbers growing fast?

**Li:** By the end of 1953, there were over 32,000 supply and marketing cooperatives, with over 100,006,500 members.

**Nehru:** Does the state encourage the development of cooperatives?

**Li:** The state encourages the development of cooperatives; it uses all kinds of preferential treatment methods.

*Ninth Question: Communications and transport: Division of responsibilities between state-run and private enterprises.*

**Li:** Railroads, airlines and post and telecommunications are all run by the state (but there is still a privately-run railroad near Shanghai). There are still private enterprises [involved] in highway and inland river shipment, and they make up quite a large proportion, too; their proportion is largest in inland river shipment, where state-run enterprises make up 52.7 percent, joint public-private

enterprises 12.2 percent, and private enterprises 35.1 percent.

**Nehru:** How about highway transport?

**Li:** State-run enterprises comprise 47.9 percent, joint public-private enterprises 2.3 percent, and private enterprises 49 percent.<sup>[viii]</sup>

**Nehru:** Is government policy going to abolish private enterprises?

**Li:** At present, private enterprises are still encouraged, and public-private joint ventures are done when necessary.

*Tenth Question: State-run enterprise trade (foreign and domestic); the nature and scope of state-run enterprise trade; current and future policy?*

**Chen:** In terms of foreign trade, trade with the Soviet Union and new democratic nations is all done by state-run enterprises. Both public and private enterprises trade with Hong Kong, Southeast Asia and Western Europe; public enterprises comprise two-thirds and private enterprises one-third. Administration is involved in foreign currency because there's not enough of it; it must be used where it is most needed.

**Nehru:** Every country is that way; there's no need to explain.

How about private banks?

**Chen:** There are many of them, but they have very little business; in 1950, to curb inflation, the state stipulated that state enterprises and organs could only save their money in state banks, so there are little savings in private banks.

**Nehru:** [So] in fact there's no way for private banks to exist?

**Chen:** In the past, private banks engaged in speculation, and there was heavy inflation at the time, so this had to be done. There are no restrictions on private individuals' savings, but 97 percent of private individuals prefer to save their money in state-run banks; private banks hold only 3 percent of private savings.

**Nehru:** Do the state banks have branches in the countryside?

**Chen:** There are [branches] in every county, and in large districts ( *qu*)<sup>[viii]</sup> as well.

**Nehru:** Will the policy be to expand the [number and functions] of banks [in the countryside]? How does one take out loans in the countryside?

**Chen:** Through credit cooperatives.

**Nehru:** Does the post office offer insurance?

**Chen:** It used to have a reserve, but no insurance.

**Nehru:** [illegible] Why doesn't it have a [reserve] now?

**Chen:** Financial management has to be centralized to curb inflation; management is difficult if it's decentralized.

**Nehru:** What is the proportion of private insurance enterprises?

**Chen:** They only comprise 1 percent of the nation's business revenues.



**Nehru:** [Let's] talk for ten more minutes and discuss one or two more questions; please give written materials [in answer to] the rest. They can be given later to Ambassador Raghavan.

**Raghavan:** You can give them to me.

*Fourteenth Question: Employment: Concerning the concepts of labor force and employment. The unemployment/employment situation.*

**Li:** According to 1950 statistics, the urban unemployed population was 3.5 million. Over the past four years, over 2.2 million have successively been given employment, and now the [unemployed population] has been reduced to 1.3 million people. Of these, 600,000 are elderly, children, infirm or handicapped and [thus] unable to work, and 200,000 are partially employed; ~~ix~~ only 500,000 are capable of working.

**Nehru:** What about in the countryside?

**Li:** There is basically no unemployment in the countryside; every person has land, but there is a surplus labor force.

**Nehru:** Everyone in the countryside has land?

**Li:** Yes.

**Nehru:** [If] every person has just a small plot of land, is there under-employment?

**Li:** [They] have life necessities, but there is a surplus labor force.

**Nehru:** What is the standard [for having the necessities] of life?

**Li:** [A person's] land allotment and sideline production can provide the necessities of life.

**Chen:** In the south, people [illegible] can't get three *mu* of land each, but the land is good.

**Nehru:** What is the number of illiterates?

**Li:** It is about 80 percent of the total population—less in the cities, more in the countryside. The illiteracy elimination plan is to eradicate illiteracy among worker, peasant and cooperative cadres within five years.

**Nehru:** How do [you] solve the problem of [creating] a large number of mid-level skilled personnel for construction?

**Li:** By expanding training.

**Nehru:** Does the whole level [of quality]—for example, the standard of [construction] projects - suffer as a result?

**Li:** That does happen.

**Nehru:** How can this problem be solved?

**Li:** By simultaneously educating graduate students to raise the level [of quality], but the problem cannot be solved within three or five years.

**Nehru:** Thank you; these questions could be discussed all day. I hope to get written materials; you can give them to Ambassador Raghavan.

<sup>[i]</sup> The list of questions, titled “Regarding China’s (State) Planning,” is appended to the original document. They have been inserted here as necessary.

<sup>[ii]</sup> Control figures (*kongzhi shuzi*) may include general targets (i.e., a number of trees to be planted in each county) and amount of money/resources allotted for reaching specific goals; lower levels of government can then report on how much they can do and the amount of resources they will need.

<sup>[iii]</sup> Ellipses are from the original document unless otherwise noted.

<sup>[iv]</sup> State enterprises enjoyed advantages like subsidies and discounts on purchases, so their budget calculations differed from those of private enterprises.

<sup>[v]</sup> That is, prices must reflect what ordinary people can afford to pay.

<sup>[vi]</sup> A factory director’s fund (*chang zhang jijin*), first used by the Soviets to incentivize production, left a portion of profits under the director/manager’s control, to be used for bonuses for especially productive workers as well as worker benefits.

<sup>[vii]</sup> These figures obviously do not add up, but they are as written.

<sup>[viii]</sup> *Qu* is an ambiguous term that can mean “area,” “district,” or “region.” In this case, Chen is apparently referring to something smaller than a county, so “district” is likely the most accurate translation.

<sup>[ix]</sup> Literally, “200,000 are not completely unemployed.”