

CHOU EN-LAI

REPORT ON
THE PROPOSALS FOR THE SECOND FIVE-YEAR PLAN
FOR DEVELOPMENT OF THE NATIONAL ECONOMY

*(Delivered at the Eighth National Congress of the Communist
Party of China on September 16, 1956)*

Comrades,

Our First Five-Year Plan for Development of the National Economy will be successfully fulfilled a little more than a year from now. In order that we may smoothly begin construction under the Second Five-Year Plan as soon as the First is fulfilled, the Central Committee of the Party deems it necessary to make an early start on drawing up the Second Five-Year Plan. Now, the Central Committee submits its Proposals for the Second Five-Year Plan for examination by the Eighth National Congress of the Party. After being discussed and adopted by the Congress, they will be presented to the State Council for discussion.

The fundamental principles and policies concerning our Second Five-Year Plan for Development of the National Economy have already been expounded in the Political Report delivered by Comrade Liu Shao-chi on behalf of the Central Committee. Now, I am entrusted by the Central Committee with the task of delivering to the Congress this Report on the Proposals for the Second Five-Year Plan.

I. IMPLEMENTATION OF THE FIRST FIVE-YEAR PLAN

Before speaking on the Proposals for the Second Five-Year Plan, I shall first talk about the basic conditions of the implementation of the First Five-Year Plan.

In the course of implementing the First Five-Year Plan, thanks to the efforts of the people, and above all to the efforts of the working people of the whole country, victories which are quicker and greater than expected have

been gained in both our work of socialist construction and of socialist transformation. Our achievements are tremendous, but there have also been some defects and errors in our work which we must strive to correct.

In regard to capital construction: It is estimated that, by the end of 1957, our investments in capital construction will probably exceed the planned total by more than 10 per cent; and that the programme for the above-norm construction projects included in the Plan, with a few exceptions, will be completed on or ahead of schedule and, furthermore, a number of new construction projects which are to be started in this period are added in each year. It is estimated that, by the end of 1957, some 500 newly built or reconstructed above-norm industrial enterprises will have been completed. This will increase the productive capacity of our industry, and help to establish new branches of industry and renovate to a certain degree some older ones, thereby beginning to alter the hitherto extremely backward state of China's industry. Through construction work under the First Five-Year Plan, our industrial base in the Northeast, with the Anshan Integrated Iron and Steel Works as its core, will be greatly reinforced. In Inner Mongolia, Northwest China and North China, many new industrial cities will take shape. The length of railways newly built or restored within these five years will reach some five thousand and five hundred kilometres. Important trunk lines such as the Chining-Erhlien and the Paochi-Chengtou lines are already finished. The Yingtian-Amoy Railway is nearing completion. The Lanchow-Sinkiang Railway has already been extended to the west of Yumen. Important highways such as the Sikang-Tibet and Chinghai-Tibet roads have been completed and opened to traffic. Completion of these railways and highways has strengthened the connection of the vast areas of our Northwest and Southwest with other parts of the country. In the field of water conservancy, the work to bring the Huai

River under permanent control is being continued; the construction of the pivotal water conservancy and hydroelectric engineering project at Sanmen Gorge on the Yellow River has started; a number of large water-conservancy projects and many small and medium ones have likewise been started. The many completed water conservancy projects have already begun to play a definite part in preventing floods and irrigating farmland. In the past few years, there have also been great achievements in geological work which meets the needs of our capital construction. As stated above, in terms of investments and progress in building most of the major projects, capital construction under the First Five-Year Plan will probably reach our original goals. But it should also be pointed out that some branches of our economy will possibly fail to fulfil their original investment plans; part of the construction work of a few major projects will possibly fall behind the original schedule. These branches and construction projects, in the period of more than a year from now, should step up their work and strive for the fulfilment of the original plans as far as possible. It should likewise be pointed out that some construction units concerned themselves only with speed, and overlooked quality and safety, thus resulting in poor quality, many accidents, and waste in construction work. This should be a lesson to us.

In regard to industrial production: The total value of industrial output (here and below, this includes the value of output of modern industries and handicrafts, being calculated in terms of constant prices of 1952) has every year exceeded the value set in the annual plan. In 1956 it will reach the level set for 1957 in the Plan. By 1957 it will possibly exceed by about 15 per cent the target originally set in the Plan. As to the output of major industrial products, in 1957 the overwhelming majority of them will surpass the planned targets. For instance, steel will reach

5,500,000 tons; electricity, 18,000 million kilowatt-hours; coal, 120 million tons; metal-cutting machine-tools, 30,000 units; power-generating equipment, 340,000 kilowatts; timber, 24 million cubic metres; cotton yarn, 5,600,000 bales; machine-processed sugar, 800,000 tons; and machine-made paper, 800,000 tons. As to important new industrial products, we are now able to manufacture power-generating, metallurgical and mining equipment and new types of metal-cutting machine-tools, which our country could not make in the past. We are also able to produce motor-vehicles and jet planes, which we were unable to make in the past. We have begun producing a certain amount of large-type steel products and high-grade alloy steels which we were unable to produce before. But owing to the shortage of raw materials, a slack market, or technical reasons, the original output plan for several kinds of products may not be fulfilled — for instance, oil, sulphur black, edible vegetable oils, cigarettes and matches.

In regard to agricultural production: In 1953 and 1954, many areas of our country suffered rather severe natural calamities. Consequently the agricultural production plans for these two years were not fulfilled. Nevertheless, the food crop surpassed that of 1952, which was a year of bumper harvests. The year 1955 was again one of good harvests. The output of grain (here and below not including soya beans) reached 349,600 million catties, that of cotton reached 30,360,000 *tan*, and the output of other agricultural products also increased. In 1956 many areas have suffered severely from floods, water-logging, typhoons and drought, resulting in a measure of damage to certain crops, especially cotton. But, because the whole countryside is in the high tide of the co-operative movement, production will be increased in those areas untouched by natural calamities, and the 1956 total output of grain in the whole country will still be able to reach the level to be attained in 1957 as set down in the First Five-Year Plan. Provided that there

are no particularly severe natural calamities in the coming year and more, it will be possible in 1957 for the main grain and certain industrial crops to exceed the targets set in the original Plan. But soya beans, peanuts, rape-seed, jute, ambary, and certain kinds of livestock will probably not be able to reach the original targets. We must take effective measures to strengthen these weak links.

In regard to transport, posts and tele-communications: Alongside the development of industrial and agricultural production and the expanding scale of capital construction, there has been an annual increase in the volume of traffic and of business handled by our posts and tele-communications. It is estimated that, in 1957, the target for freight mileage handled by all major transport departments will possibly be overfulfilled. But, because the plan for the technical reconstruction of certain existing lines and equipment has not been fulfilled, certain lines and transportation centres are at present overburdened and congested with traffic. Endeavours are being made to alter this situation.

In regard to commerce: With the constant growth of socialist commerce, a well-planned and well-organized domestic market has already taken shape, and the leading position of socialist commerce is being consolidated. In 1956 the volume of retail trade will increase by 66.3 per cent as compared with 1952, and the total value of imports and exports, by 65 per cent. It is estimated that, by 1957, all plans for retail sales and for the sales of most commodities in the home market, and plans for exports and imports, will be fulfilled, and some even overfulfilled. In the past few years, the volume of commodity circulation in the country has been expanded on the basis of increased production, and, as a result of carrying out the policy of planned purchase and distribution in regard to several kinds of the most essential daily necessities, supplies of the people's daily necessities have been ensured. This has

secured, in the main, stability of prices and promoted industrial and agricultural production and the improvement of the people's life. At present, the chief defect in commercial work is that the supply of commodities is not well-organized, and business management is unsatisfactory. This has created overstocking of some goods at one time and shortage at another.

In regard to culture, education, scientific research and public health: Considerable advances have been made in all these fields in the past few years. It is estimated that by 1957, except for a few branches, we shall be able to overfulfil all the targets, including those for higher, secondary and primary education, scientific research, journalism, publications, broadcasting, literature, arts, cinema, physical culture and medical service. For instance, the 1957 enrolment in institutions of higher learning will reach about 470,000, surpassing the original target by about 9 per cent, and there will be 68 research institutes under the Chinese Academy of Sciences, 17 more than in the original plan.

In regard to co-operation in agriculture and handicrafts: By the end of June 1956, a total of 992,000 agricultural producers' co-operatives had been organized throughout the country. Their members made up 91.7 per cent of the country's peasant households; those belonging to co-operatives of the advanced type constituted 62.6 per cent of all peasant households. Approximately 90 per cent of all the handicraftsmen had been organized. It is our estimate that by the end of 1957, after we have worked for another year and more, co-operation in agriculture and handicrafts will be virtually universal throughout the country, except for a few border areas.

In regard to socialist transformation of private industry and commerce: By the end of June 1956, 99 per cent of capitalist industrial enterprises, in terms of output value, and 98 per cent in terms of number of workers and employees, had come under joint state-private operation. Of

the private commercial and catering establishments, 68 per cent in terms of number of shops, and 74 per cent in terms of number of personnel, had been transformed into joint state-private shops, co-operative shops or co-operative groups. The conversion of capitalist industry and commerce into joint state-private enterprises by whole trades and the introduction of the system of a fixed rate of interest on shares have prepared the way for the nationalization of capitalist means of production.

Here I wish to speak briefly about the improvement of the people's material well-being.

Taken as a whole, the rate of increase of the wages of the workers and employees in the past few years was in the main compatible with that of labour productivity. However, in a certain period of time, the rate of increase in wages lagged far behind that of labour productivity. For instance, labour productivity in industry (excluding private industry) in 1955 was about 10 per cent higher than in 1954, while the average wages of the workers and employees increased only 0.6 per cent. A similar situation was found in other branches of the national economy. Immediately after we discovered this mistake in our work at the end of 1955 we set about correcting it. Beginning from April 1956, we implemented a nation-wide reform of the wages system, fixing the average wages of the workers and employees for 1956 at about 13 per cent above that of 1955. Thus the average wages of the workers and employees in 1956 will be 33.5 per cent higher than in 1952, surpassing the 33 per cent increase in five years laid down in the First Five-Year Plan. The increase of labour productivity will also exceed the original target. In state-owned industrial enterprises, for instance, labour productivity, according to the 1956 target, will be 70.4 per cent higher than in 1952, surpassing the 64 per cent increase in five years stipulated in the First Five-Year Plan.

During the past few years, we stabilized the agricultural taxes for the benefit of the peasants, and appropriately raised the price of grain purchased by the state, thus gradually improving the life of the peasants on the basis of expanded production. But we also made some mistakes. In 1954, because we did not completely grasp the situation of grain production in the whole country, and purchased a little more grain from the peasants than we should have, discontent arose among a section of the peasants. In 1955, we carried out the policy of fixed quotas for the production, purchase and marketing of grain, which set the minds of the peasants at ease and raised their enthusiasm in production. It is now estimated that the total income of the peasants can be increased by about 30 per cent in these five years.

From the situation described above, it can be seen that our First Five-Year Plan can definitely be fulfilled successfully. Most of the targets can be surpassed, if we make strenuous efforts and if no particularly serious natural calamities or unexpected accidents occur. The execution of the First Five-Year Plan has brought about, and its over-fulfilment will further bring about, profound changes in our national economy. This expresses itself mainly in the following: Industrial and agricultural production has been raised greatly, with the total output value of industry and agriculture (including the output value of modern industries, handicrafts and agriculture) in 1957 estimated to increase by more than 60 per cent compared with 1952; the share contributed by the value of industrial output (including output of handicrafts) to the total value of industrial and agricultural output will be approximately 50 per cent, with industry producing capital goods accounting for over 40 per cent of total industrial output—a fact that will strengthen the leading role of industry in the national economy. Furthermore, as a decisive victory has been scored in socialist transformation, the socialist sector has

assumed the predominant position in all fields — industry, agriculture, transport and commerce. Now, all branches of our national economy are prospering, and culture, education, and scientific research are entering a flourishing period. This has created conditions for the continued raising of the people's standard of living.

It should be pointed out that the unity of our people of all nationalities, all democratic parties and all patriots under the leadership of the Communist Party of China, and the initiative and enthusiasm they have shown in the task of socialist transformation and socialist construction are the foundation and guarantee for the great achievements enumerated above.

We must also point out that the great Soviet Union and the People's Democracies have given us tremendous assistance in the carrying out of our First Five-Year Plan. During this period, the Soviet Union has granted us loans on favourable terms, helped us to design 205 industrial enterprises and supplied the bulk of the equipment for them, sent large numbers of outstanding experts to China and rendered us much technical aid in other ways. The People's Democracies, too, have given us much assistance in equipment, materials, technical forces and so on. Experts from the Soviet Union and the People's Democracies who are working in China have been making outstanding contributions to the cause of socialist construction in our country. We wish to take this opportunity to express our deep gratitude for the sincere, fraternal assistance given us by the Soviet Union and the People's Democracies.

In carrying out the First Five-Year Plan, we have acquired considerable experience and learned not a few lessons. By drawing on these, we shall be able to work still better in socialist construction. Here I only wish to put forward some views on certain questions which we consider to be fairly important in guiding economic work during the past few years.

First, we should, in accordance with needs and possibilities, set a reasonable rate for the growth of the national economy and place the Plan on a forward-looking and completely sound basis, to ensure a fairly balanced development of the national economy. Since it is difficult for us, while drawing up the long-term plan, to fully envisage the various new circumstances and questions that may arise in the course of its implementation, we should set the long-term targets in a comparatively realistic way and leave it for the annual plans to make the necessary adjustments. The targets set in the First Five-Year Plan are, in the main, correct. The arrangements of the annual plans of the past four years were, by and large, suited to the specific conditions of the time, and were therefore capable of ensuring an overfulfilment of our First Five-Year Plan. But it should be pointed out that in certain parts of our annual plans for 1955 and 1956, we erred on the side of setting the targets too high or too low, which gave rise to certain difficulties in our work.

In drawing up the 1955 plan, because of the crop failures in the previous two years, we narrowed down the scale of capital construction a bit too much, and in the campaign to practise economy in that year, we made inappropriate cuts in investments for certain non-productive capital construction projects. And as the plans for capital construction were changed frequently and issued to the departments concerned very late, they were not quite satisfactorily fulfilled. As a result, not only was there an excessive financial surplus, but also a temporary false surplus of important building materials like steel products, cement and timber. If we had, at an earlier date, prepared a number of reserve projects and enlarged the scale of construction in time or if we had increased our state reserves of certain materials in a planned way, this temporary laying-up of materials could have been resolved. However, since we underestimated the developments ahead and regarded

temporary surpluses of materials as a relatively permanent phenomenon, we resorted to export to resolve our difficulties with temporary surpluses of steel products and cement. This was clearly not the right thing to do.

At the time when we drew up the plan for 1956, owing to the bumper harvest of the previous year and to the great victories won in socialist transformation, it was necessary as well as possible to set a fairly high tempo for development of the national economy. But, we failed to strike a proper balance between the scale of capital construction and the capacity for supplying materials, and therefore we set the scale of capital construction somewhat larger than it should be. At the same time, there appeared in certain branches of the national economy a tendency to do many things at once and be impatient for success. As a result, not only were our national finances somewhat strained, but there occurred a serious shortage of building materials, such as steel products, cement and timber. The state reserve of materials was too heavily drawn upon, and quite a strained situation was brought about in various spheres of the national economy.

Experience shows that, in drawing up the long-term plan, we should set the targets realistically in accordance with the basic requirements of socialist industrialization and with the possibilities of the material and financial resources and manpower of the country. At the same time, a certain amount of reserves should be built up so that the plan can be put on a sounder basis. But while drawing up annual plans, we should bring whatever potentialities we have into play according to the conditions which will possibly develop in the current year and subsequent years, so as to ensure fulfilment and overfulfilment of the long-term plan. Experience further shows that we should guard against two different tendencies in drawing up the annual plans: when conditions are favourable, we must discern the unfavourable factors confronting and ahead of us and

guard against impatience and rashness; when conditions are unfavourable, we must see that there also exist many favourable factors confronting and ahead of us and guard against timidity and hesitance. That is to say, we should make an over-all analysis of the objective conditions, and at the same time try as best as we can to make a unified plan for the main targets of the current year and the next year, so that each of the annual plans may dovetail with the next and advance at a fairly even pace.

Secondly, we should co-ordinate key projects with over-all arrangements, so that the various branches of the national economy can develop proportionately. During the past few years, while giving priority to the development of heavy industry, we adopted the policy of speeding up agricultural co-operation to push forward the development of agricultural production, and correspondingly developed light industry, thus making it possible to avoid the danger of dislocation between the several major branches of the national economy.

In dealing with this relationship between key projects and over-all arrangements, we have, however, also made mistakes in some cases. For instance, in 1953, in the construction work of some departments and localities there appeared the tendency to do everything at once, taking no account of actual conditions, and recklessly running ahead. As a result, this affected the priority construction projects of the state, gave rise to difficulties in finance and waste of manpower and material resources. Such a tendency recurred in the beginning of 1956, following the publication of the Draft National Programme for Agricultural Development (1956-1967). Some departments and localities, impatient for success, attempted to accomplish within three or five years, or even one or two years, tasks that required seven or twelve years to complete. These tendencies were all discovered and corrected by the Central Committee in good time.

In the same period, there appeared another tendency — the tendency to give certain important tasks too much emphasis so that they fell out of step with other related tasks. For example, in the beginning of 1956, in order to speed up agricultural development, we overestimated the needs in that year for the two-wheeled, double-shared plough and the small-size steam engine, and drew up production plans for too high an output of them. Although plans for the two products were repeatedly revised to reduce output, the planned figures were still too high. As a result, too much steel was consumed, thus creating more tension in the supply of steel in 1956. Also, some machine-building factories were made to rush up production at one time and reduce it at another. To take another example, in the course of our construction, certain industrial enterprises advanced too rapidly so that the raw materials needed were not all available. The result was that it was impossible for those enterprises to give full play to their productive capacity. At the start of our industrial construction, things like these might not be entirely avoidable. But it was not impossible to foresee them and make more judicious preparations against them.

In our construction work during the past few years, we have made arrangements that are on the whole appropriate with regard to the relationship between the central and the local authorities, and between the coastal areas and the interior. But there were still shortcomings in this respect. For some time, we laid emphasis on the construction work undertaken by the central authorities, but paid inadequate attention to the development of local construction work; we laid emphasis on construction work in the interior, but paid inadequate attention to that in the coastal areas. Hereafter, we should constantly pay attention to readjusting the above-mentioned relationships, so as to avoid one-sidedness.

The foregoing shows that while we lay emphasis on key projects, it does not mean that they can be developed in isolation, independent of an over-all arrangement; and while we require an over-all arrangement, it does not mean that we may lay equal emphasis on all things without giving assurance to the key projects. In drawing up plans and arranging our work, we must neatly co-ordinate key projects with over-all arrangement.

Thirdly, we should build up our reserves and perfect our system of stockpiling materials. Loss of balance is bound to occur frequently as our national economy develops. Hence we must lay aside the necessary reserves of materials, financial resources, mineral resources, productive capacity, etc., and in particular, we must increase state-held stocks of materials, so that an even growth of our national economy and the smooth execution of annual plans may be ensured, and that any unexpected difficulties that may arise can be coped with. In the next few years, our agricultural production is still very much subject to the influence of natural calamities. To meet possible crop failures, we must have stocks of grain and of major industrial crops. In order to meet the needs of the daily expansion of the scale of our construction and production, we must also have stocks of equipment and raw materials. Furthermore, we still lack experience in planning, and our plans are often incomplete and inaccurate. Even if they are fairly accurate at the moment when they are drawn up, they may be thrown out of balance by unforeseeable factors. For instance, in 1956, when the utilization rate of the open-hearth and blast furnaces was raised as a result of the introduction of new technique, the supply of ores and coke failed to catch up. In order to eliminate or mitigate the unbalanced conditions which may occur in carrying out the plan, we must also hold the necessary reserves.

Although the state's stocks of materials were not very large in the past few years, they played a part in meeting the demands of our production and capital construction, and made a contribution towards easing the tense material shortages of 1956. It should be pointed out, however, that in the past we did not grasp the full importance of keeping reserves of materials. As I have said before, in 1955, when there was a small surplus of certain materials, we injudiciously exported part of them. So when the scale of capital construction was expanded in 1956, an acute shortage of these materials was felt.

We must understand that in a country like ours where the economy is backward and the population is large, shortage of materials will occur frequently for a long time to come, whereas any surplus will be transient. Therefore we need to pay still more attention to augmenting our reserves and instituting a storage system, for the state to store necessary materials, and especially important materials the supplies of which are not so abundant. All state enterprises should also keep proper material reserves. Of course, the storage of materials, whether made by the state or by state enterprises, should be carried out in a well-planned way, and the quantities of materials should be fixed within reasonable limits and increased gradually. We cannot expect to make big increases at once because this would harm our current production and construction. Furthermore, we must also combat the wrong view of regarding the overstocking of products caused by blind production as storage of materials by the state, because this would inevitably cause state funds to run to waste or lie unused, which is also harmful to our production and construction.

Fourthly, the relationship between economy and finance should be correctly handled. Years of experience tell us that our financial revenue must be based on our economic development, and our financial expenditure must also, and above all, ensure the development of our economy. Thus,

we should first of all consider the economic development plan, particularly the plan for industrial and agricultural production. Then, basing ourselves on it, we should draw up the financial plan, with which to ensure the successful carrying out of the economic plan. If, instead of enlarging our financial resources in accordance with the conditions of our economic development, we set our targets for financial revenue too low, or, if we only worry about cutting financial expenditure and keep too much in reserve, we will tend to hold back the full development of economic construction. This would be wrong.

In drawing up our financial revenue plan, we must take into account the prospects of economic development and the correct ratio between accumulation and consumption, and avoid placing the figures so high as to put a great strain on our efforts. In drawing up our financial expenditure plan, apart from making a correct distribution in line with the demands of ensuring the construction of key projects and the proportionate development of the national economy, we should also give consideration to the balance between the scale of construction and the supply of materials and keep in hand a definite amount of reserve funds to meet unexpected needs, and avoid placing the figures so high as to put a great strain on our efforts. It would be obviously wrong, too, to take only the demands of construction into account and ignore the financial possibilities, or without considering whether there are adequate supplies of equipment, materials and technical personnel, put forward indices which are too high and excessively big plans for investments.

Comrades often like to argue whether or not there should be "financial limitations." In our view, it is of course wrong to ignore the demands of economic development, and subjectively set up limitations which hamper economic development. We should oppose such limitations. But, if financial plans conform to the actual condition of

economic development, and embody the correct relations between accumulation and consumption, between priority construction projects and over-all arrangements, then such financial plans must undoubtedly be strictly carried out, and should by no means be branded as "financial limitations" and blindly challenged.

It should also be pointed out here that many of the shortcomings and mistakes in our work are inseparable from subjectivism and bureaucracy among the leadership. Some leading comrades sit up on high, do not approach the masses, are ignorant of the actual conditions, and are subjective in dealing with questions and making arrangements for work. Consequently one can hardly expect their decisions to be correct; in fact, they may be wrong. Bureaucracy at higher levels, moreover, fosters commandism at lower levels.

At present the various departments of the State Council are overstaffed and divided into too many levels, causing the lower organizations to be inundated with official documents, telegrams and forms. There are leading cadres in certain departments who are not even aware what directives have been issued from and what regulations have been made in their departments. A quick end must be put to such manifestations of bureaucracy.

Although we have made great achievements in our governmental work, we must never allow ourselves to have the slightest feeling of self-complacency and conceit. It should also be observed that our national economy is developing at high speed, and that the situation changes often and rapidly. New problems can appear anywhere at any moment, and many of these problems are interlinked and crisscrossed with complications. Therefore, we must constantly maintain close contact with the masses, get down to reality, strengthen the work of investigation and study, take changes in the situation in hand, make concrete analyses of conditions, both favourable and unfavourable,

and estimate both advantages and difficulties correctly so that decisions can be made in time to regulate the activities of all departments and aspects of our national economy in order to avoid dislocation and clashes. In this vast country of ours, where situations are complicated and sweeping changes in the economy are taking place, any sort of negligence may result in big mistakes and great losses. Consequently, the overcoming of subjectivism and bureaucracy is of especially great importance.

II. FUNDAMENTAL TASKS OF THE SECOND FIVE-YEAR PLAN

The Central Committee of the Party considers that in drawing up the Second Five-Year Plan for Development of the National Economy we should start from the anticipated achievements of the First Five-Year Plan, bear in mind the basic requirement that by about the end of the Third Five-Year Plan period we must fulfil the fundamental task of the state in the transition period, and make a practical appraisal of the various conditions inside and outside the country during the Second Five-Year Plan period, so that the planning may be all-embracing. Only in this way can the plan be both forward-looking and sound.

The Central Committee of the Party suggests that the fundamental tasks of the Second Five-Year Plan for Development of the National Economy should be: (1) to continue industrial construction with heavy industry as its core and promote technical reconstruction of the national economy, and build a solid foundation for socialist industrialization; (2) to carry through socialist transformation, and consolidate and expand the system of collective ownership and the system of ownership by the whole people; (3) to further increase the production of industry, agri-

culture and handicrafts and correspondingly develop transport and commerce on the basis of developing capital construction and carrying through socialist transformation; (4) to make vigorous efforts to train personnel for construction work and strengthen scientific research to meet the needs of the development of socialist economy and culture; and (5) to reinforce the national defences and raise the level of the people's material and cultural life on the basis of increased industrial and agricultural production.

The main purpose of the socialist industrialization of our country is to build up, in the main, a comprehensive industrial system approximately within a period of three Five-Year Plans. Such an industrial system will be able to produce the principal machinery, equipment and materials to meet in the main the needs of our expanded reproduction and of the technical reconstruction of our national economy. It will also be able to produce various types of consumer goods to satisfy suitably the needs born of the ever-rising living standards of the people.

Some may ask: Given the continuous development of the economies of the socialist countries headed by the Soviet Union, and given the possibilities of economic and technical co-operation among the socialist countries, is it still necessary for our country to set up a comprehensive industrial system? We think that even though our country's situation today is quite different from that of the Soviet Union in the early years of its establishment, and that the existence and development of the Soviet Union and the People's Democracies is a very favourable condition for our socialist construction, yet a populous country like ours, which has rich resources and great demands, still needs to build its own comprehensive industrial system. This is because, in accordance with our internal requirements, we must quickly alter the long-term backwardness of our national economy; and in accordance with international re-

quirements, the establishment of a powerful industry in our country can promote a common economic upsurge in the socialist countries and add to the forces in defence of world peace. The parasitic view that we need not build our own comprehensive industrial system, and can rely wholly on international assistance, is therefore wrong.

Another view, that we can close our doors and carry on construction on our own, is wrong too. Needless to say, the establishment of a comprehensive industrial system in our country requires assistance from the Soviet Union and the People's Democracies for a long time to come. At the same time it is also necessary for us to develop and expand economic, technical and cultural exchanges with other countries. Even when we have built up a socialist industrial state, it will still be inconceivable that we should close our doors and have nothing to ask from others. Facts show that, not only will economic and technical co-operation among the socialist countries expand continuously, but, with the daily growth of the forces of the peoples of various countries in the struggle for peace, democracy and national independence, and the international situation tending more and more towards relaxation, economic, technical and cultural relations between us and various other countries of the world will certainly expand from day to day. Therefore, the isolationist view of socialist construction is also wrong.

In order to lay a solid foundation for the socialist industrialization of our country, it is necessary, during the Second Five-Year Plan, to continue to expand our metallurgical industry, to make vigorous efforts to speed the construction of our machine-building industry to strengthen our electric power, coal-mining and building material industries, and to energetically develop the backward branches of our industry — the oil, chemical, and radio equipment industries. At the same time, we should also press ahead with the technical reconstruction of our na-

tional economy and, first of all, technical reconstruction of industry, so as to raise the technical level of our industry.

As attested by experience, industrial construction, with heavy industry as its core, cannot and should not be carried on in isolation, but must be co-ordinated with other branches of the national economy, especially agriculture. Agriculture is a necessary condition for industrial development, and for the development of the entire national economy. To retard the development of agriculture would not only have a direct adverse effect on the development of light industry and the betterment of the people's livelihood, but greatly affect the development of heavy industry as well as of the national economy as a whole; it would also adversely affect the consolidation of the worker-peasant alliance. Therefore, in the Second Five-Year Plan period we should continue to make great efforts to develop agriculture so that its development may be co-ordinated with that of industry. To ensure a well-proportioned, mutually co-ordinated development of all branches and aspects of the national economy, we should arrange proper relations between heavy industry and light industry, between industrial and agricultural production on the one hand and transport and the circulation of commodities on the other, between economic construction and cultural development, between national construction and the livelihood of the people. At the same time, we should readjust the relations between the central and the local authorities, between the areas close to the coast and the interior, and between the various nationalities. All this is intended to harness all positive factors and useful forces to the great cause of building socialism.

In the Second Five-Year Plan period, it will be possible for our capital construction, and industrial and agricultural production, to keep up their expansion at a relatively high speed. The Central Committee considers that in this period, on the basis of increased state revenue, state in-

vestments in capital construction can be increased from the figure of about 35 per cent of the total state revenue in the first five-year period, to about 40 per cent. Hence investments in capital construction in the second five-year period will be about double those in the first. As regards industrial and agricultural production, according to preliminary calculations, the total value of industrial output in 1962 will be about 100 per cent more than in 1957. Within this total, the value of output of both capital goods and consumer goods will increase considerably, but the rate of increase in capital goods will be greater. The total value of agricultural output will increase by about 35 per cent. By 1962, the total value of industrial and agricultural output will be about 75 per cent above the figure set for 1957 by the First Five-Year Plan.

It should be explained here that the increased percentages as enumerated in the Proposals for the Second Five-Year Plan are calculated with the planned targets set in the First Five-Year Plan as the basis, and no account is taken of the possibility that these targets will be surpassed. They thus appear to be relatively high. After the conclusion of the First Five-Year Plan, if the figures actually achieved in 1957 are used as the basis, then the percentage increases in the Proposals may turn out to be relatively lower. For instance, China's steel output for 1962 as suggested in the Proposals is 10,500,000-12,000,000 tons. This represents an increase of 150-190 per cent, as compared with the 1957 target set in the First Five-Year Plan — which is 4,120,000 tons. But compared with the 1957 output of steel as now envisaged, which is 5,500,000 tons, the increase will be about 100-120 per cent.

We consider that the rates of expansion of capital construction and industrial and agricultural production, mentioned above, are suitable, being put on a forward-looking and perfectly sound basis. We are convinced that if only we rely on the masses and bring their initiative and crea-

tive ability into play, we can mobilize great strength, overcome all difficulties in the path of our advance and successfully accomplish the tasks set by the Second Five-Year Plan just as we have done in the First.

III. SOME MAJOR QUESTIONS CONCERNING THE PROPOSALS FOR THE SECOND FIVE-YEAR PLAN

I have explained above the fundamental tasks of the Second Five-Year Plan. The specific principles and targets with regard to the Second Five-Year Plan have been dealt with in the Proposals put forward by the Central Committee. Here, I shall only speak briefly on a number of major questions concerning the Proposals for the Second Five-Year Plan.

1. REASONABLE ACCUMULATION AND DISTRIBUTION OF FUNDS

The scale of our national construction will depend on the amount of funds we can accumulate and how we distribute them. If we amass more funds and distribute them properly, the rate of expanded reproduction in society will be faster, and we shall be able to bring about a well-proportioned development of the various branches of the national economy. Therefore, a reasonable solution of the questions of accumulation and distribution of funds is of great importance.

National income is the material wealth newly created in production by the working people of the whole country. In socialist countries, the entire national income belongs to the working people themselves. They use a part of it for the maintenance and improvement of their own living standards and the other part for expanded reproduction

of the social forces of production, i.e., on accumulation. In the distribution and redistribution of national income, a suitable proportion must be maintained between the part for consumption and the part for accumulation. If the proportion of consumption is too small, the improvement of the life of the people will be impeded. If the proportion of accumulation is too small, expanded reproduction of the social forces of production will be slowed down. Both would be detrimental to the people.

In the Second Five-Year Plan period, our national income will probably rise by approximately 50 per cent as compared with the first five years. Because our national economy is still very backward, with agriculture still occupying a relatively large part, and because the standard of living of our people is still relatively low, the portion of national income going to accumulation cannot and should not be increased too much and too fast, but may be slightly bigger than that in the first five-year period. Thus, in the Second Five-Year Plan period, the amount of accumulation will still show a great increase along with the rise in the national income.

After the problem of the accumulation of funds is solved, we must also solve the problem of distributing such funds. Taking into account the present internal and international conditions, the Central Committee considers that, for the Second Five-Year Plan period, it is necessary and possible for us to cut down appropriately in our state budget the proportion of expenditure going to national defence and administration, and to raise that going to economic, cultural and educational undertakings. In the first five-year period, expenditure for national defence and administration constitutes approximately 32 per cent of all state expenditure. In the second five-year period, we should endeavour to cut it down to approximately 20 per cent. In this way, expenditure for economic, cultural and educational undertakings can be raised

from approximately 56 per cent in the first five-year period to 60-70 per cent in the second, thereby ensuring a rapid progress in the economic, cultural and educational spheres.

In distributing state investments in capital construction, a relatively high rate of development should be ensured for industry and agriculture. In the total amount of investments, investments in industry may be raised from 58.2 per cent in the first five-year period, to approximately 60 per cent in the second; and investments in agriculture, water conservancy and forestry may be raised from 7.6 per cent to around 10 per cent. In addition, attention should be paid to proper allocation of investments for transport, posts and tele-communications, for cultural, educational, scientific and public health departments, for urban construction departments and commerce, so that each may retain an appropriate proportion.

In distributing industrial investments, suitable proportions should be kept between light and heavy industries. In the first five years, as there are still considerable potentialities in our light industry, the Plan stipulates that investments in light industry should constitute 11.2 per cent of the total industrial investment (this has been raised a little in the course of implementation)—a percentage which is appropriate. Considering the gradual rise in consumption by the people in the second five years, and that our productive capacity in certain products of light industry will be inadequate, we deem it necessary to suitably increase the percentage of investments in light industry. However, some of the light industrial enterprises have not fully tapped their potentialities, large numbers of joint state-private enterprises, in particular once reorganized, will be able to further increase their output, and the handicrafts, being put on the co-operative basis, will also further increase the production of consumer goods. In allocating investments to light industries, we should also take these factors into account.

2. CORRECT ARRANGEMENT OF THE CAPITAL CONSTRUCTION PROGRAMME

Apart from the reasonable distribution of investments necessary in capital construction, which we have just dealt with, attention should also be paid to the following questions related to capital construction:

(1) QUESTION OF STRENGTHENING THE MACHINE-BUILDING AND METALLURGICAL INDUSTRIES

In our industrial construction, which has heavy industry as its core, special attention should be paid to building up the machine-building and metallurgical industries.

The development of the machine-building industry is one of the principal links in the establishment of a comprehensive industrial system in our country. During the First Five-Year Plan period, we are still unable to make many heavy machines, precision machines and complete sets of equipment for many types of factories. We are therefore compelled to import about 40 per cent of the machines and equipment needed for our construction. Hence a crucial question in our industrial construction from now on will be the vigorous development of the machine-building industry — particularly the manufacture of various types of heavy equipment, special-duty machine-tools, precision machine-tools, and instruments which we need but of which we are short. Through our construction under the Second Five-Year Plan, we should strive to raise the percentage of machines and equipment produced at home to about 70 per cent of our needs.

Metallurgy is the foundation of heavy industry; unless we have a powerful metallurgical industry, it will be difficult for us to develop machine-building. In the First Five-Year Plan period, we supplied only about 80 per cent of the nation's steel needs from domestic production while we imported all, or nearly all, our supplies of many

special types of steel products. Hence, another crucial question in our industrial construction from now on will be the vigorous development of metallurgy. We should strive to ensure that as a result of construction in the Second Five-Year Plan, the quantities and types of steel products and major non-ferrous metals produced will meet, in the main, the needs of the various branches of the national economy, and in particular, of machine-building.

Among the various branches of heavy industry, we must not only strive to develop the machine-building and metallurgical industries, but also strengthen many other weak links and fill up many blanks. For instance, the mining and refining of rare metals, the establishment and expansion of an organic synthetic chemical industry, the peaceful utilization of atomic energy, etc. should all be taken as important aspects of our construction and given sufficient attention.

To develop heavy industry, it is necessary to continue to improve and expand geological work and correctly link general reconnaissance with priority prospecting work. Efforts should be made to explore more mines and more kinds of ores, and collect more data on mineral deposits so as to satisfy the long-term as well as immediate needs of industrial construction.

(2) QUESTION OF GEOGRAPHICAL DISTRIBUTION OF PRODUCTIVE FORCES

In order to achieve a rational distribution of productive forces in our country, to promote the economic development of all areas, and to adapt the geographical disposition of our industries to the situation of our resources and national defence, it is necessary to build new industrial bases in the interior in a planned way. We must firmly adhere to this policy. The building up of new industrial projects in the interior will also promote the economic and cultural development of the national minority areas. During

the Second Five-Year Plan period we must continue the construction of the industrial bases in Central China and Inner Mongolia with the iron and steel industry as their core; actively proceed with the construction of new industrial bases in Southwest China, Northwest China and the area around the Sanmen Gorge, with iron and steel industry and large-type hydro-electric power stations as their core; carry on with the building of oil and non-ferrous metal industries in Sinkiang; and intensify geological work in Tibet in order to prepare the way for its industrial development.

At the same time, we must make full use of the existing industrial bases in areas near the coast. Many of the materials, equipment, funds and technical personnel needed for industrial construction in the interior have to be supplied and supported by the existing industries in the cities near the coast. We may say that the existing industrial bases in the areas near the coast are the starting-point of the industrialization of our country. And it is not only to meet the daily-increasing needs of our state and people but also to build up more powerful industrial bases in the interior that we make full use of and strengthen the industrial bases in the areas near the coast. In the Second Five-Year Plan period, we should continue to strengthen the industrial base in Northeast China, make full use of and strengthen to a proper extent the industries of the cities near the coast in East, North and South China, so that they may play a more active role in national construction.

To be sure, in making full use of the existing industrial bases in the cities near the coast, we must proceed rationally and avoid thoughtlessness in our work. To proceed rationally is to reconstruct those enterprises which it is necessary as well as possible to reconstruct, but not to reconstruct all existing enterprises. It is to set up, as a rule, fewer new enterprises in those cities in which there are already a fairly large number of industrial enterprises. It

also requires that, before building new enterprises and reconstructing existing ones, we should take into account sources of raw materials, market conditions, techniques of production, and transport facilities, and pay attention to a rational division of work with other areas.

As to the distribution of industrial enterprises, whether in the interior or along the coast, our policy is to achieve both proper dispersion and mutual co-ordination, and to combat both the tendency towards over-concentration and towards neglect of correlation.

In carrying out the rational distribution of industrial productive forces, we shall build up many new cities and enlarge many existing ones. To achieve this, we should strengthen the work of city planning and urban construction, so as to co-ordinate them with industrial construction.

(3) QUESTION OF CO-ORDINATION BETWEEN LARGE ENTERPRISES ON THE ONE HAND AND SMALL AND MEDIUM ENTERPRISES ON THE OTHER

The many large-scale industrial enterprises which we began to build during the First Five-Year Plan period and those which we shall begin to build in the Second Five-Year Plan period constitute the backbone of a self-reliant and comprehensive industrial system in our country. But while we are building large-scale enterprises, it is also necessary to build up a good number of small and medium ones. We need these so that, in a relatively short period of time, we can turn out more industrial products to satisfy the needs of both national construction and of consumption by the people.

Some hold that we should establish more large enterprises and fewer small or medium enterprises, because to set up large enterprises is more rational economically and technically. Some other people, however, think we should set up more small and medium enterprises and fewer large

enterprises, because to set up the former requires less time, and the investments yield a quicker return. We think that neither is true in all cases. In certain industries or under given conditions, it is reasonable to establish large enterprises, while in others or under different conditions, it might be more reasonable to establish small or medium ones. For each branch, generally speaking, there should be some large enterprises to serve as the backbone, and there should also be many small and medium enterprises to support the large ones.

In order that the enterprises may be built in a more rational way, we may, whenever this is necessary and feasible, establish a large enterprise stage by stage. As regards small and medium enterprises, wherever resources are plentiful and other conditions are available, we may draw up a comprehensive plan to pave the way for future development. Further, when planning the co-ordination of small and medium enterprises with large ones, we should first utilize the existing small and medium enterprises and handicrafts under state ownership or joint state-private ownership so as to exploit their productive potentialities.

3. DEVELOPMENT OF INDUSTRIAL PRODUCTION

It is provided in our First Five-Year Plan that in 1957 the total value of industrial output (including the value of output of the handicrafts) will increase by 90.3 per cent as compared with 1952. The Central Committee proposes that the total value of industrial output in 1962 should approximately double that set originally in the plan for 1957. The reasons why, in the Second Five-Year Plan period, the increase of the total value of industrial output can be maintained at a rather high speed, are that in this period the number of newly-built and reconstructed enterprises going into operation will increase; most of the existing enterprises will take technical measures to increase production or

undertake technical reconstruction; the joint state-private enterprises will have accomplished their economic reorganization, and will have, in the main, been nationalized; all the handicrafts, with a few exceptions, will have been organized into co-operatives; and agricultural development will also possibly proceed at a rather high speed.

Regarding the development of industrial production, I should like to speak here only about the following questions:

(1) QUESTION OF TURNING TO ACCOUNT THE PRODUCTIVE POTENTIALITIES OF INDUSTRIAL ENTERPRISES

According to a rough calculation, by 1957, the output value of newly-built and reconstructed enterprises will account for about 15 per cent of the total value of industrial output; whereas by 1962, that of the newly-built and reconstructed enterprises to be completed in the first and second five-year periods will account for about 50 per cent. Therefore, it is of great significance for the development of industrial production to strengthen our organizational work and turn these enterprises to the fullest account.

In the newly-built industrial enterprises and those which have undergone major reconstruction, especially those of heavy industry, a period of time should be allowed from their entering into operation to the full attainment of the designed productive capacity, during which the technical personnel and workers will get acquainted with the properties and capacity of the machinery and equipment and the technological processes. But this period can be shortened if the labour enthusiasm and wisdom of the technical personnel, workers and employees are given full play. Moreover, some of the productive capacities set down in the designing data can be exceeded. As shown by the statistics of April 1956, of the 141 above-norm industrial construction projects successively put into operation in the period from 1953 to 1955, 30 have reached ahead of sched-

ule and surpassed their designed capacity, 33 will be able to reach their designed capacity ahead of schedule, 71 will be able to reach their designed capacity on time, and only 7 will fail to do so. That is to say, nearly half of the enterprises will be able to shorten the period allotted and attain their designed capacity ahead of schedule. An instance in this respect is the reconstructed Shenyang Pneumatic Tools Plant, which attained the designed capacity in the second year of its reconstruction, as against the four years which it was estimated to take, and is expected to more than double its designed output capacity in 1957. Another instance is the newly-built Fushun Aluminium Works, which was put into operation in the beginning of 1955, and at the end of the same year, its output already reached about 110 per cent of its designed capacity. From this it is evident that newly-built and reconstructed enterprises have very great potentialities for production. In order to turn these potentialities to the fullest account, the primary thing to do is to strengthen the preparatory work for production, especially training of personnel, preparation in technique, organization of co-operation, and the supply of materials. The departments concerned should study, summarize and popularize the concrete experience gained in these matters.

But it can by no means be said that, given the newly-built and reconstructed enterprises, we need no longer pay attention to production in the older enterprises. In the Second Five-Year Plan period the output value of the older enterprises will still make up a fairly large part of the total value of industrial output, and many of the newly-built and reconstructed enterprises will still have to rely on their co-operation and support. We must take different measures in accordance with actual conditions. We should systematically reconstruct or carry out the technical renovation of certain enterprises. In the case of others, we should readjust their equipment and provide them with some new equipment. With the rest, we should continue to improve

their operation and management so as to give full play to their potentialities.

(2) QUESTION OF PROMOTING SPECIALIZATION AND CO-OPERATION IN INDUSTRIAL PRODUCTION

Labour productivity can be raised, production costs reduced and technical development advanced by specialization and co-operation in industry, especially in heavy industry. But specialization and co-operation in industry are rather complicated problems which can only be settled severally and step by step over a fairly long period as our country's industrial level rises and in accordance with concrete conditions and possibilities. We must not do this work blindly and crudely.

In the First Five-Year Plan period, we have been bringing into full play the possibilities of existing multiple-product factories and seeing to it that their production meets the manifold needs of national construction and the people's life. On the other hand, in the machine-building industry, we have begun to set up some specialized plants according to types of products and have reorganized some machine-building plants whose products used to be too varied, turning them in the direction of specialization. All this is entirely necessary. In the Second Five-Year Plan period, apart from setting up a few specialized factories, we should make rational adjustments of the planned list of products which the various types of newly-built and reconstructed enterprises will produce so as to avoid both the defect resulting from too great a variety of products and the tendency towards undue specialization. With respect to existing enterprises, we should on the one hand suitably readjust the planned list of products in certain enterprises so as to rationalize their production, and on the other hand retain some of the multiple-product factories. In the case of most of the joint state-private enterprises, we

should allow them to continue to turn out the kinds of products which they have been manufacturing, to meet the manifold needs of society and the requirements of state enterprises for co-operative support. In an industrial area or an industrial city, we may make an over-all arrangement, in accordance with the needs and possibilities, to organize specialized production of certain forgings, castings and standard products. In promoting specialization in industrial production, we should guard against the tendency to produce fewer types of products.

With the gradual development of industrial production towards specialization, the task of co-operation becomes heavier and more complicated. Thus it is necessary to take further corrective action against the inclination to work in isolation and reluctance to co-operate. Enterprises which must and can co-operate should lay down concrete tasks of co-operation in their annual plans, and enter into co-operation contracts.

(3) QUESTION OF RAISING THE QUALITY AND INCREASING THE VARIETY OF PRODUCTS

Inferior quality and lack of variety of many industrial products, particularly certain products of light industry, have become an outstanding problem in current industrial development and adversely affected national construction and the people's life. There is no doubt that the quality of many products of our heavy and light industries is being steadily improved and their types constantly increased. But this is not the case for all industrial products. The quality of certain industrial products even continues to deteriorate while fewer are produced. A big effort must be made to remedy this.

Although the low quality and limited range of industrial products can to a large extent be attributed to our low technical level and out-of-date equipment, this does not

mean that it is impossible for us to raise the quality of our industrial products and increase the number of types produced, still less can this be used as an excuse for lowering quality and producing fewer types. Some industrial departments have failed to pay due attention to the quality and variety of their products and lack long-term plans and effective measures to deal with this question. In examining the execution of plans, these departments are very often too much concerned about whether the output target is reached, but not whether the targets for quality and the production of new types of products are achieved. Prizes are awarded to those who have overfulfilled the output plan in quantity but not to those who have raised the quality and increased the types of products. All these are important reasons for the present low quality and limited variety of industrial products. Besides, in regard to products of light industry, they were, in the past, purchased and distributed *in toto* by the commercial departments. Products of higher and lower quality and of new and old types were bought and sold at the same prices or with only a slight difference in prices. These systems and measures also fostered the tendency of enterprises to overlook the quality and variety of products. Therefore, right now as well as in the Second Five-Year Plan period, the various industrial departments should work out long-term development plans in regard to industrial technique, energetically mobilize personnel for the designing of new products and strengthen leadership over the designing and trial manufacture of new products, strengthen the technical management of the enterprises, improve the supply of raw materials, and introduce a system of awarding prizes for good quality products. They should, in particular, encourage the broad mass of workers and employees to strive for improved quality and a greater variety of products. At the same time, the commercial departments should gradually introduce the system of selective purchase of certain commodities and

the method of grading commodities and fixing prices according to quality.

4. DEVELOPMENT OF AGRICULTURAL PRODUCTION

In the Proposals for the Second Five-Year Plan, the Central Committee proposes that grain output in the five years will total about 2,200,000 million catties, with the 1962 output amounting to about 500,000 million catties; while the output of cotton in the five years will total about 210 million *tan*, with the 1962 output amounting to approximately 48 million *tan*. Compared with the original target for 1957, the total value of agricultural output in 1962 will show an increase of approximately 35 per cent. These targets have been advanced on the basis of the following considerations: On the one hand, with the exception of a few areas, the advanced form of co-operation will have been reached in agriculture and thus we will be able to further implement the provisions of the Draft National Programme for Agricultural Development (1956-1967), extensively adopt various measures for increasing production and spread all the experience gained in this respect; at the same time the irrigated area and the area under cultivation will be expanded, the supply of chemical fertilizers will be increased, and the means of production and farming techniques will be improved. All this will promote the further development of agricultural production. On the other hand, losses due to various kinds of natural calamities are still unavoidable, many rivers which cause serious damage still cannot be completely harnessed, land reclamation still cannot be carried out on a larger scale, and conditions for agricultural mechanization are not yet all ready. All this places a limit on the extent to which we can increase the rate of development of agricultural production. But of course, we should make full use of the favourable conditions mentioned above,

in an effort to achieve a greater growth of agricultural production during the period of the Second Five-Year Plan.

As regards the development of agricultural production, special attention should be paid to the following two questions:

(1) QUESTION OF INCREASING YIELDS

The chief way to increase agricultural production in the Second Five-Year Plan period is, on the basis of co-operation, and relying on the labour enthusiasm of the peasants, to gradually improve the technique of agricultural production, build irrigation works, increase the use of manure and fertilizers, and popularize advanced experience, so as to increase yields. In implementing these measures to increase production, we must follow the principle of coordinating the work of the state with that of the co-operatives.

As regards the construction of irrigation works: On the one hand, the central and the local authorities should undertake a certain number of large and medium water conservancy projects, such as the projects for the permanent control of the Yellow River, the Huai River and the Haiho River, and flood and water-logging prevention projects in various places. On the other hand, the co-operatives should build small-scale irrigation works in large numbers, improve the existing irrigation installations, and strengthen the work for the conservation of soil and water. In low lands subject to water-logging, they should devise and put into effect various measures for its prevention and drainage, and change the farming system so as to reduce the damage caused by it.

As regards increasing the use of manure and fertilizers: On the one hand, the state should energetically develop the fertilizer industry, and try to import more chemical fertilizers, in order to increase their supply. On the other hand, and principally, the co-operatives and their members should

accumulate manure by extensively raising pigs (or sheep in some places), make green manure and collect other natural fertilizers.

As regards popularizing various technical measures and advanced experience in increasing production: We should actively promote the work of technical guidance. On the one hand, we should draw on the advanced experience of other places in increasing production and popularize it in a way suitable to local conditions, and based on scientific experiment and study. On the other hand, we should pay close attention to summing up and popularizing advanced experience acquired locally in increasing production.

Here we should especially point out that we must be both active and prudent in carrying out new technical measures and popularizing advanced experience. In the past few years we have achieved great results in this work, but in some places there have been mistakes of mechanical application and enforcement by coercion, resulting in ill consequences. Hereafter, measures for increasing production and advanced experience should be popularized step by step only after they have been proved effective through experiments; and, furthermore, in the course of popularization, appropriate steps should be mapped out in conformity with the specific local conditions of the time. Meanwhile, the local peasants, especially the old and experienced peasants, should be consulted; one should never seek to spread any measure or experience by coercion. Nor should local habits in farming be rashly rejected.

(2) QUESTION OF DEVELOPING A DIVERSIFIED AGRICULTURAL ECONOMY

We must pay adequate attention to grain which ensures the livelihood of the people and is the basis for developing agricultural economy as a whole. During the past few years, all localities have attached importance to the increase of

grain and cotton yields. This is quite necessary. But some localities have consequently not given adequate attention to increasing production in other branches of agricultural economy — industrial crops (except cotton), livestock breeding, forestry, fisheries, sericulture, and subsidiary cottage occupations. In addition, some agricultural products and local and special products have been affected by the low prices fixed for purchase by the state. As a result of all this, our agricultural economy has been unable to achieve an all-round, full development, which in turn has adversely affected the development of our national economy as a whole and the income of the peasants. Therefore, the local authorities, down to every agricultural producers' co-operative, in planning for their production, should work out an over-all plan of agricultural development, taking into account the historical and present conditions of the locality, the natural environment and economic and technical conditions, and the peasants' ways of production and life, so as to avoid any tendency towards uniformity and one-sidedness. In pastoral areas, forest areas and fishing areas, plans should be worked out centring on livestock breeding, forestry and fishery respectively, and at the same time providing for the development of agriculture and other subsidiary occupations according to existing possibilities.

We should adopt many concrete measures to promote the all-round development of agricultural economy. The various kinds of production which the peasants are in the habit of engaging in and which are needed by society should continue to be carried on and further developed. We should encourage the co-operatives as well as enterprises and plantations managed by the central or local authorities to undertake, under the technical guidance of the state, the production of things that are urgently needed by society, and especially those of great economic value, such as sub-tropical and tropical crops, and those agricultural and subsidiary occupation products which are needed for

export. We should encourage the members of co-operatives to undertake separately the subsidiary cottage occupations where unified management by the co-operatives is unnecessary. The commercial departments should set reasonable purchasing prices for such agricultural products and subsidiary occupation products and improve purchasing systems. At the same time, the departments concerned should give suitable help to the co-operatives in restoring trades for the processing of agricultural products in rural districts.

5. DEVELOPMENT OF TRANSPORT AND POSTS AND TELE-COMMUNICATIONS

In the Second Five-Year Plan period, with the development of industrial and agricultural production, the expanding of the scale of capital construction, and the development and construction in the interior and the border areas, there is need for a great increase in transport and communication facilities. This requires us to give priority to railway building projects, and build a corresponding nationwide transport and communication network. Thus the transport, postal and tele-communication departments are faced with the following gigantic tasks: on the one hand, we should proceed with the necessary reconstruction and technical renovation of existing lines and facilities; on the other hand, we should continue to build new lines, mainly railways and highways in the Northwest and Southwest, and ports on the coast and the Yangtse River, and also increase necessary transport and communication facilities. The transport and postal and tele-communication departments should work out an over-all plan according to the above-mentioned twofold task and in order of importance and urgency, so as to ensure fulfilment of the tasks in the spheres of transport and posts and tele-communications put forward in the Proposals for the Second Five-Year Plan.

Some transport and communication lines are already somewhat strained at the present time. This is mainly due to insufficient capacity of facilities. However, it should also be noted that there are still certain potentialities in some transport and communication lines and facilities which have not yet been exploited. Therefore, the transport and postal and tele-communication departments should vigorously take effective technical measures, and strengthen the organizational work in transport and communications.

Our country lacks modern transport facilities and lines, and those we have are not evenly distributed; furthermore there are immense numbers of such traditional means of transportation as junks and animal-drawn vehicles in our country; they are widely distributed and will remain for a long time to come an important auxiliary force of transport and are, in some areas, at present even the main force of transport. In view of this, we should make full use of these means of transport, and properly develop and carry out technical improvement on them step by step. We should make combined use of modern and traditional means of transport wherever possible, so as to meet the ever increasing needs of transportation.

6. STRENGTHEN WORK IN COMMERCE

To better the life of the people, not only must we increase their money income, but also see to it that a definite amount of commodities suiting their needs is made available to them. According to a rough estimate, the volume of various consumer goods for everyday use and part of the means of production to be sold to the people of town and countryside, that is, the total volume of retail trade in 1962, will increase by about 50 per cent as compared with the targets originally planned for 1957. This is an arduous task for the commercial departments. They must keep strengthening their work in purchasing and marketing; con-

tinue to carry through the policy of planned purchase and distribution in regard to major daily necessities; build up commercial networks in a rational way; and organize according to plan a number of free markets under the guidance of the state to meet the growing needs of the people. In the field of foreign trade, we should organize export of suitable materials according to plan so as to ensure imports of equipment and materials needed for national construction.

As a link between production and consumption, and between industrial and agricultural production, commerce is not only entrusted with the task of meeting the needs of the people's everyday life and the needs of part of our production as well as that of accumulating funds for the state, but is also entrusted with the task of stimulating the growth of industrial and agricultural production. As the law of value still plays a certain role in our economic life, and an important role in certain fields, its correct utilization and the correct handling of our price policy will stimulate the growth of our industrial and agricultural production.

In the First Five-Year Plan period, commodity prices in our country have been, by and large, stable and the price relations between industrial and farm products have on the whole been reasonable. This indicates that our price policy has been correct. It has promoted the development of our industrial and agricultural production and national construction and contributed to guaranteeing the smooth progress of our socialist transformation. But there were still some defects and mistakes in the execution of our price policy. They found expression mainly in the following: the prices for the purchase of some farm produce and special and local products were fixed too low, or fluctuated between high and low, which adversely affected increases in their production, or even led to reduced production in some cases; the difference between the prices of some products of light industry of different qualities and types was

too small, which adversely affected the work of improving the quality and increasing the variety of these products. These defects have been detected and put right step by step, but they are not yet wholly eradicated. In the future, we need to make further study and readjustment in regard to commodity prices.

Correct handling of the price policy is a very complicated matter. In a country like ours where the population is very large and the economic conditions varied, we must take a very prudent attitude towards price readjustment, and must not go about it in a rash manner. For instance, to unduly raise the price of farm produce purchased by the state will do harm to our industrial production, to our workers' life, and to the maintenance of a correctly proportioned development of different kinds of farm produce. To unduly cut the marketing price of industrial products may result in deficient supplies of commodities. Therefore, both undue rises and undue cuts in prices will be unfavourable to the growth of industrial and agricultural production and improvement of the people's livelihood. In the Second Five-Year Plan period, we shall keep to the policy of stabilizing our prices, but make suitable adjustments as needed in the case of certain unreasonable prices.

As a result of the victory in socialist transformation, socialist economy has assumed a predominant position in our country. This enables us to make better use of the law of value, within proper limits, to stimulate production of those industrial and farm products that are small in amount but great in variety, and that need not be purchased and marketed *in toto* by the state, so as to meet the many-sided needs of the life of the people. In order to meet the situation described above and prevent a lowering of quality and reduction in the variety of products resulting from over-rigid and excessive control, we shall, now and in the Second Five-Year Plan period, adopt many important measures in the field of commerce. For

instance, a number of free markets will be organized in a planned way under the leadership of the unified state market; producers will be allowed, within certain limits, to market their own products; the method of selective purchase by the state will be adopted in regard to certain industrial products of daily use; and the method of grading and fixing prices according to quality will be adopted in regard to all commodities. Far from disrupting the unified state market, these measures will supplement it in a helpful way.

7. REORGANIZATION OF ENTERPRISES AND ARRANGEMENTS FOR PERSONNEL DURING THE SOCIALIST TRANSFORMATION

In regard to the work of socialist transformation, I shall only deal with the following two questions:

(1) QUESTION OF REORGANIZATION OF SMALL AND MEDIUM JOINT STATE-PRIVATE ENTERPRISES, AND OF HANDICRAFTSMEN AND SMALL TRADERS' CO-OPERATIVES

As the large joint state-private enterprises came under joint operation at an earlier date, their production and management have already been brought into the orbit of state planning step by step, and their systems of operation and management have also, on the whole, undergone preliminary reform. But the large numbers of scattered small and medium joint state-private enterprises that recently came into being remain to be properly reorganized and arranged. Many individual handicraftsmen and small traders and pedlars having been brought into co-operatives, these co-operatives also need reorganization and arrangement. Only by so doing can we enable their members to carry on their production and operation under more rational conditions, so as to gradually adapt themselves to the planned management of the state. In

conducting reorganization, we must pay attention to preventing and rectifying the tendency towards over-concentration.

In the field of industry, small-sized factories certainly have their shortcomings, but they are more mobile and flexible in production and management, and find it easier to adapt themselves to varied, ever-changing needs. Therefore, all small factories that are rationally operated and able to meet the needs of society should be preserved and not merged or eliminated thoughtlessly. As regards handicraft co-operative organizations, we should refrain, as a rule, from making them over-concentrated. We should follow the principles of developing production, meeting the needs of society and increasing the income of their members and allow big co-operatives, small co-operatives and groups to exist side by side. Certain manufacturing trades and especially many repairing trades and personal service establishments should be allowed to operate on a scattered basis and retain their original features of management, so that they can serve the inhabitants directly and can draw upon the family for auxiliary labour for production. Some of the handicrafts may be allowed to carry on their production individually under the leadership of the handicraft co-operative organizations. They may also be allowed to produce and market all by themselves, without being organized.

In regard to commerce, trading establishments should be so distributed as to suit the convenience of the people to the greatest extent. Therefore, it is all the more improper to get them over-concentrated. They should rather be duly dispersed and operated in a great variety of ways to serve the population. Our leading commercial organizations have usually given more thought to their own convenience in administration, and less to the convenience of the inhabitants, thus giving rise to the tendency towards over-concentration—undue concentration and elimination

of a number of small shops and traders and pedlars. This tendency must be quickly corrected. From now on, both in the residential quarters of cities and in the wide countryside, we should preserve a considerable number of small traders and pedlars to serve the people better in such forms as co-operative shops, co-operative groups, distributors for the state on a commission basis or even buying and marketing all by themselves.

(2) QUESTION OF MAKING ARRANGEMENTS FOR AND RE-EDUCATING INDUSTRIAL AND MERCHANT CAPITALISTS AND SMALL PROPRIETORS

As capitalist industry and commerce comes under joint state-private operation, we should train outstanding workers and employees and promote them to take part in the management of the enterprises. At the same time we should draw in the former industrial and merchant capitalists and small proprietors to take part in operational and management work or assume some leading positions. With the institution of joint operation and the system of paying fixed rates of interest on shares to the capitalists, the bourgeois elements in the enterprises take on a dual nature — they are at once capitalists and staff members. Therefore, the representatives of the state as shareholder should cooperate well with all those representing the interests of the capitalists and give free scope to their special knowledge and their initiative and, in the process of working with them, make efforts to educate them, help them overcome their bourgeois ideas and style of work, help them score achievements in work and gradually turn them into working people in the real sense of the term; we should not assume a discriminatory attitude towards them. By so doing, we shall do good to the enterprises as well as to the state and the working class. In order to do this work satisfactorily, we should see to it that workers and employees of the enterprises understand the matter and regard

the work of uniting with and re-educating the capitalists and their agents as an important task.

The overwhelming majority of the hundreds of thousands of capitalists and their agents in the joint state-private enterprises have certain production skills or management experience, and some of them are highly skilled or have rich experience. We must make full use of their production skill and what is useful in their management experience. In these respects the state's representatives should endeavour to learn from them.

8. IMPROVING THE STATE ADMINISTRATIVE SYSTEM AND BRINGING LOCAL INITIATIVE INTO FULL PLAY

In the Second Five-Year Plan period, an increasing number of construction projects in the country will be undertaken by the local authorities or completed through the concerted efforts of the central and local authorities. Therefore, to afford local authorities free scope for their initiative is an essential condition for the accomplishment of our socialist construction.

Now that decisive victory has been won in the socialist transformation of our country and our people's democratic dictatorship has been further consolidated, we must and can, in keeping with the principles of unified leadership, level-to-level administration, devising what is appropriate in each locality and in each case, define more clearly the sphere of jurisdiction of the central and the local authorities, and improve the state administrative system, so that local initiative can have free scope. In the period from May to August this year, the State Council called a series of national meetings on questions concerning the state administrative system. At these meetings the existing situation of excessive centralization was examined, the question of improving the state administrative system was discussed, and a draft resolution for improving the system

was introduced. The State Council is now extensively soliciting views from different circles on this draft resolution.

In defining the respective spheres of jurisdiction of the central and the local authorities, we deem it necessary to observe the following principles: (1) Explicit stipulations should be made so that the provinces, autonomous regions, and municipalities directly under the central authority will have a definite degree of jurisdiction over planning, finance, enterprises, public institutions, materials and personnel. (2) All enterprises and public institutions which are vital to the national economy as a whole and which are of an over-all nature and key importance and concentrated should be administered by the central authorities, while the rest should, as far as possible, be administered by the local authorities. When enterprises and public institutions are handed over by the central to the local authorities, their planning and financial and personnel administration should in general be handed over as well. (3) The administration of enterprises and public institutions should be effectively improved, and dual leadership in which the central authorities play the main role while the local authorities a subsidiary one and vice versa, should be promoted, so as to strengthen effectively our leadership over enterprises and public institutions. (4) Important plans and financial targets under the administration of the central authorities should be issued to the local authorities in a unified way by the State Council, and the method hitherto employed of having many important targets issued separately by various departments should be changed. (5) The local authorities must be allowed a certain latitude for flexible readjustment regarding certain important targets of the plan and quotas of personnel. (6) Specific arrangements should be made with regard to the various autonomous rights in the national autonomous regions and attention be paid to helping the national minority regions in their political, economic and cultural development. (7)

The state administrative system should be improved step by step. Certain important changes should be carried out steadily and in orderly progression, i.e., to make preparations for them this year, to give them a try-out next year and to carry them through in the Second Five-Year Plan period.

In order to carry out effectively the above-mentioned principles, the essential point in our opinion is to duly extend the jurisdiction of the local authorities under the unified leadership of the central authorities. As the local authorities are in closer contact with the primary units of enterprises and public institutions and with the masses, and enjoy greater facilities to understand the actual conditions they will, as their jurisdiction is extended, be able to organize more effectively all local forces and positive factors for socialist construction.

In order to bring into fuller play the initiative of the localities and strengthen further the unity among all nationalities of the country, we should, at present and in the Second Five-Year Plan period, pay more attention to the work among national minorities. In all areas where national minorities live in compact communities and where autonomous administrations should be, but have not yet been, set up, we should according to the provisions of the Constitution energetically help them to set up such administrations. We should strictly respect the autonomous rights of the national autonomous regions. We should train and promote large numbers of cadres from among the national minorities, unceasingly raise their political understanding and their ability in tackling various kinds of problems so that they may prove equal to their responsibilities, and exercise the functions and powers that go with their posts. In areas where national minorities live in compact communities, or where a number of national minorities live together, or where they are scattered among other nationalities, the equal rights of nationalities, free-

dom of religious belief, and the habits and customs and language of each national minority should be respected. As for those national minorities who have still no written languages or whose written languages are not yet fully developed, we should energetically help them create or reform them.

9. TRAINING PERSONNEL FOR CONSTRUCTION WORK AND PROMOTING SCIENTIFIC RESEARCH

In the Second Five-Year Plan period, in order to build a firm basis for socialist industrialization, proceed with national construction, and push ahead the technical reconstruction of our national economy, we must make great efforts to train personnel for construction work and promote scientific research.

(1) QUESTION OF TRAINING AND DISTRIBUTION OF PERSONNEL FOR CONSTRUCTION

It is the foremost task of education to train for the state personnel for the work of construction, especially industrial technicians and personnel for scientific research. In the past few years, our work of training such personnel has made marked progress, but from the point of view of national construction, the personnel trained in our universities, colleges and secondary vocational schools is still inadequate to meet actual needs, especially with regard to quality and types of qualifications. Therefore, in the Second Five-Year Plan period, we should further develop our higher education and secondary vocational education, and draw up comprehensive plans according to the principles of "giving priority to the most important aspects and due consideration to the rest" and of co-ordinating needs with possibilities.

In order to improve the work of training personnel for construction, we must pay due consideration to the rela-

tion between numbers and quality. In the past few years, we have put undue emphasis on numbers and neglected quality; this is a tendency which must be corrected. Educational institutions should do their utmost to increase the number of students as far as possible on condition that their quality is ensured to a certain extent. Government and other organs which need cadres should, however, take into consideration actual needs and practical possibilities, and should not make a big demand which outruns what the educational institutions can supply, so that the number of students will not be recklessly increased to the detriment of quality.

In both higher education and secondary vocational education, practical, non-subjective measures should be taken to readjust their faculties and departments and set up special fields of study, to improve the educational plan, teaching programmes, textbooks and teaching methods, so that the trainees will be better able to meet actual needs in various branches of the national economy. At present, the greatest difficulties in developing and raising the levels of higher education and secondary vocational education are the shortage of teachers and the low quality of the students. It is therefore necessary to select a suitable number of fine graduates from universities and colleges and train them as research students, and to send university and college graduates as well as faculty members to study abroad those subjects which are absent from our own curricula, laying emphasis on what should be of first importance, so as to increase the number of teachers. At the same time, senior and junior middle schools must be appropriately developed and run well, and the quality of middle-school students raised. Our universities and colleges and secondary vocational schools are in general not well-off in books and laboratory apparatus. This inadequacy should be gradually remedied; and buildings

necessary for the development of these institutions should also be provided.

To train personnel for construction, we must also develop spare-time education, that is, help those workers and employees qualified for advanced education to enter evening schools or correspondence schools where they will be trained into specialized personnel of intermediate and higher levels. Those who attend these schools must do so of their own free will, and they should carry on their study at different times and in groups. The institutions concerned should guarantee the time needed by those cadres who take up spare-time studies. Such time should not be too long, nor should the studies be too intense, lest their professional work or health be affected.

In view of the shortage of scientific and technical personnel, a rational distribution of personnel for construction becomes all the more important. In the distribution of such personnel, we should above all give priority to what is most important and at the same time have due regard to the rest, with respect to the needs of production and construction and of scientific research and teaching. Also we should continue to rectify the cases of improper allocation of scientific and technical personnel, and those in which cadres have not been given work suited to their abilities.

(2) QUESTION OF STRENGTHENING SCIENTIFIC RESEARCH

Recently, under the direct leadership of the Central Committee of the Party and the State Council, several hundred outstanding scientists from all parts of the country got together and drafted a comprehensive twelve-year plan for the nation-wide development of science and technology, and another for the development of philosophy and the social sciences, putting forward respectively the most important research tasks in the natural and social sciences. This is a very important step for raising the level

of our scientific research, and for ensuring that many important branches of science and technology in our country will within twelve years approach the advanced levels of development in the world. It is necessary to complete these two plans at an early date under the leadership of the Central Committee of the Party and the State Council and organize all the forces devoted to scientific research in the country to fulfil step by step the tasks laid down by these two plans. Since the tasks to be undertaken in this regard are very arduous and we still have an insufficient number of experts in scientific research while modern science and technology are developing at a tremendous pace, and since, in addition, those branches of science to which we now give priority in our research work are our weak points or even form gaps in our work, we should concentrate our forces on first dealing with important problems and avoid the tendency to do everything at once and so disperse our forces indiscriminately in various fields.

In order to promote scientific research, we must step by step build up the institutes of scientific research in the Chinese Academy of Sciences, government departments and enterprises and put them on a sound basis, strengthen scientific research in the universities and colleges, and see to it that a division of labour and close co-operation and co-ordination are achieved. Scientific research institutes should be rationally distributed in various localities. Scientific research should be closely co-ordinated with the various kinds of national construction work, especially economic construction. In scientific research, the principle of "letting diverse schools of thought contend" must be strictly followed and free discussion of academic questions encouraged, so as to give full play to the initiative and creative ability of those engaged in scientific research.

In order to promote our scientific research, it is also necessary to solve in time the problem of providing the requisite literature, material, instruments and laboratories;

to make vigorous efforts to improve the working conditions of those engaged in scientific research; and to further enhance international contacts and co-operation in scientific research, and collect and exchange scientific and technological data both at home and abroad.

10. FURTHER IMPROVEMENT OF THE PEOPLE'S LIFE

In the Second Five-Year Plan period, it will be possible for us to further improve the life of the people on the basis of expanded production and increased national income.

Fundamentally, all our construction work is undertaken in the interests of the people. In the course of our work, however, it is often not easy to co-ordinate satisfactorily the long-term interests of the people with their immediate interests, and the interests of the collective with those of the individual. Therefore, it is necessary for us to maintain a suitable proportion in the use of national income between accumulation and consumption, and to see that the life of the people is improved step by step while a gradual expansion of the scale of national construction is ensured.

Here, I shall deal with the following questions in particular:

(1) QUESTION OF IMPROVING THE MATERIAL WELL-BEING OF WORKERS AND EMPLOYEES

In the Second Five-Year Plan period, the average wages of workers and employees will be raised by 25 to 30 per cent. Such a rate of increase will be in keeping with the level of economic growth and the rate of increase of labour productivity in our country. In view of the experience mentioned above, we must, in the annual plans, constantly maintain a suitable proportion between the increase of wages and that of labour productivity, so that the wages

of workers and employees may be raised comparatively evenly along with the rise in labour productivity. Moreover, in making annual plans for the increase of the wages of workers and employees, we should pay attention to the possibilities of production and supply of daily necessities, so as to avoid dislocation between the increase of wages and the supply of commodities. In readjusting the wages of workers and employees, the principle of "to each according to his work" must be adhered to, so as to further improve the wages system.

To improve the material well-being of the workers and employees, we should, apart from further raising their wages, adopt both now and in the Second Five-Year Plan period practical measures wherever possible to improve step by step their housing, safety, medical and health services and duly provide additional welfare amenities. In this connection, the State Council has worked out some specific measures which will be announced and put into effect in the near future.

We should continue to fight against the bureaucratic attitude of indifference to the life of the workers and employees. In fact, it is not entirely owing to the lack of financial or material resources that much of what might have been done for the welfare of the workers and employees has not yet been done. It is mainly because the leading personnel of some of the departments concerned have adopted a bureaucratic attitude towards improvement of the life of the workers and employees. It should be pointed out that some of the welfare amenities can be provided without any increase in state expenditure. If only we rectify our bureaucratic style of work, concern ourselves more about the life of the masses and conscientiously carry out the plan and the various regulations of the state in this regard, we shall be able to do better the important work of improving the material well-being of the workers and employees.

(2) QUESTION OF IMPROVING THE MATERIAL WELL-BEING
OF THE PEASANTS

To improve the material well-being of the peasants, we should, on the one hand, pay attention to readjusting the proportion between the state's accumulation and the income of the co-operatives to provide a correct solution for the question of the peasants' contribution to the state's revenue, and, on the other hand, pay attention to readjusting the proportion between the common accumulation of the agricultural producers' co-operatives and the income of the individual members to provide a correct solution for the question of distribution of the total income of co-operatives. In the Second Five-Year Plan period, the agricultural tax should be kept in proper relation to the state revenue, and the agricultural tax proper and additional taxes should be combined so as to simplify the tax system. At the same time, all co-operatives are required to adhere to the provisions of the "Model Regulations for Advanced Agricultural Producers' Co-operatives," so that their reserve and welfare funds and administrative expenses will in general not exceed the proportions prescribed in the regulations. If this is done and if the plan for increased agricultural output is fulfilled in the Second Five-Year Plan period, it will be possible for the peasants to increase their total income by 25 to 30 per cent in the five years.

In the Second Five-Year Plan period, the state will continue in every way to help the agricultural producers' co-operatives expand production; state investments in water conservancy projects and agriculture will be greatly increased as compared with those under the First Five-Year Plan; agricultural loans will also be increased. At the same time, the state will again allocate special relief funds for rural areas affected by natural calamities. With regard to many hilly areas and old revolutionary base areas where

natural conditions are unfavourable, the state should from now on pay particular attention to helping the local people develop production and improve their living.

(3) QUESTION OF RAISING THE CULTURAL STANDARDS
OF THE PEOPLE

In the Second Five-Year Plan period, along with the progress of economic construction and the increase of the people's cultural demands, we should, in accordance with the provisions of the Proposals, continue to make efforts to wipe out illiteracy, develop primary school education, promote spare-time education for workers and peasants, and push ahead step by step with the reform of written Chinese. At the same time, we should take further steps to promote cultural work for the masses and expand our work in journalism, publications, broadcasting, literature, art and the cinema. In undertaking work in these fields, special attention should be paid to improving quality.

Energetic but steady steps should be taken in our cultural and educational work among the broad masses. In wiping out illiteracy and developing primary school education, social, cultural and publication work during the past few years, we made the mistake of being either conservative or rash, thereby causing damage to our work, which should not have occurred. We should learn a lesson from this and promote our cultural and educational work in future in a practical way, according to actual needs and possibilities.

In promoting cultural and educational work among the masses, we must rely fully on the masses and follow the mass line. The mistake of taking everything into one's own hands and imposing one's will upon the masses occurred quite often in educational and cultural work in the past. Henceforward, these mistakes must be rectified. We should insist that the voluntary principle is observed, and that the masses are constantly consulted. In regard to

the undertakings which really meet the needs of the masses and which can and will be undertaken by the masses of their own accord, such as village schools, literacy classes, clubs, and spare-time theatrical troupes, we should give them support and help and strengthen our leadership of them. Of course, in making use of the strength of the masses, we must always try to save the people's time and energy, and must not arbitrarily increase the people's burdens.

(4) QUESTION OF IMPROVING THE HEALTH OF THE PEOPLE

In the Second Five-Year Plan period, we must continue to develop public health and medical services, take further steps for the development of physical culture and athletics, and appropriately promote birth control.

In the past few years, the patriotic movement for better sanitation has played an important part in the improvement of environmental sanitation and reduction of diseases. In the last year or two, however, we have somewhat relaxed our leadership over this movement. Henceforward, we must make further efforts to carry on this movement more thoroughly and put it on a routine basis, so as to further improve environmental sanitation in town and countryside and reduce the incidence of contagious and occupational diseases. At the same time, we should also actively popularize our experience in combating schistosomiasis, and eliminate, by periods, by districts, and in a planned way, the most harmful local diseases. The basic units of health organizations throughout the country have played an important part in the prevention and cure of diseases. The public health departments should henceforward strengthen their leadership of them.

There still exist many defects in health and medical services. For instance, because of bad administration and high fees charged in the hospitals, full use has not been

made of the beds which are now still limited in number, and some among the masses cannot afford to see doctors and be hospitalized. Beds in the sanatoria have not been brought under unified management, thus resulting in great waste. Besides, there are also defects in the system of free medical services and in the system of medical work. In order to eliminate these defects, the public health departments should make investigations and study conscientiously to devise practicable methods for improvement.

We should further popularize physical training among the masses, effectively improve the physique of the people and raise our level in sports. In doing so, we must see that the training is conducted step by step and with due regard for the specific conditions of people engaged in production, studies and other kinds of work, as well as their physique. The standards fixed for them should not be too high and no immediate achievements should be expected from them. Generalization should also be avoided.

To protect women and children and bring up and educate our younger generation in a way conducive to the health and prosperity of the nation, we agree that a due measure of birth control is desirable. Health departments should, in co-operation with other institutions concerned, carry out intelligent propaganda and adopt effective measures towards this end.

11. CONTINUING TO PRACTISE STRICT ECONOMY

Industriousness and thrift are fine traditions of our people. All state organs, state enterprises, public institutions and co-operatives should practise strict economy in order to make full use of manpower, materials and money, thereby stepping up the socialist construction of our country.

A year ago, the Central Committee of the Party and the State Council called upon all government workers and the people of the whole country to practise economy and

eliminate waste. They were asked to put an end to such undesirable things as carrying on too many non-productive projects, high construction costs of productive projects, low quality of engineering work and industrial products, heavy damage to and loss of materials, over-expansion and over-staffing of organizations. Considerable improvements have been made after more than a year's effort. However, it should be pointed out that not all departments have strictly practised economy and cases of waste still exist. Furthermore, in the course of practising economy and opposing Rightist conservative ideas, there arose a one-sided emphasis on economy and the tendency towards stressing quantity and speed at the expense of quality and economy, and as a result quite a few engineering projects and industrial products were found to be defective in quality. Some had to be done over again, and others were of less use than they should have been or even became useless. Thus not only was the goal of practising economy not attained, but waste was caused.

In the Second Five-Year Plan period, because of the enlarged scale of national construction, we will still come up against many difficulties in regard to material supplies, funds and technical personnel. The practice of strict economy and rational utilization of materials, money and manpower are important methods of overcoming these difficulties. It should be recognized that economy or waste is greatly affected by good or bad planning. Economy ensuing from good planning is the greatest economy, while waste caused by bad planning is the greatest waste. Therefore, state organs at all levels and enterprises should first of all do their work in drawing up plans well. All enterprises should improve supervision of technical-economic norms and extend the introduction of various kinds of reasonable, advanced norms. They should strengthen technical control, improve the quality of industrial products and engineering projects, and reduce the number of

rejects, products of inferior quality and accidents relating to the quality of engineering projects. They should enforce the system of personal responsibility and put an end to the state of affairs in which responsibility for work is not specified. All this is intended to prevent waste and tap all potentialities conducive to economy. All public institutions should curtail unnecessary expenditure and personnel, strengthen financial management and auditing, so as to lower the proportion of expenditure for public institutions in the budget. All co-operatives should continue to carry through the principle of "industry and thrift" in their operation.

The state administrative organs should continue to cut down overlapping organizations and reduce superfluous staff. Generally speaking, the state administrative organizations at different levels are at present still inflated and over-staffed. This is more true of the organizations at higher levels than those at lower levels, more true of big organizations than small ones. We must take effective measures to continue the readjustment of organizations at all levels and re-apportionment of government cadres. The structure of administrative organizations is to be simplified. An appropriate number of people working in organizations at the higher levels is to be transferred to lower organizations, and part of the personnel in non-productive departments is to be transferred to productive departments. These are effective measures of practising economy in state organs at the present time.

12. STRENGTHENING OUR UNITY AND CO-OPERATION WITH THE SOVIET UNION AND THE PEOPLE'S DEMOCRACIES, AND EXPANDING ECONOMIC, TECHNICAL AND CULTURAL CO-OPERATION AND CONTACTS AMONG NATIONS

In order to accomplish socialist construction, we must, in addition to mobilizing all positive factors at home, unite

with all international forces that can be united with and make use of all international conditions that are favourable to us. We have made consistent efforts to strengthen our unity with the great Soviet Union and the People's Democracies and carry out all-round co-operation with them and give each other support. We have also been endeavouring to develop economic co-operation, trade relations and cultural and technical contact with countries having different social systems, especially with those in Asia and Africa.

The mutual help and co-operation between China and the Soviet Union and the People's Democracies is based on an unbreakable fraternal friendship, and aims at promoting the common economic advance of all socialist countries and continuously improving the material well-being and cultural standards of their peoples.

As stated above, both in the period of rehabilitation of our national economy and in the period of carrying out the First Five-Year Plan for Development of the National Economy, we have received enormous all-round and sincere aid from the Soviet Union as well as important aid from other fraternal countries. This aid has enabled us to tide over many difficulties and made it possible for our cause of socialist construction to forge ahead at a fairly high speed. In the Second Five-Year Plan period, the Soviet Union and the People's Democracies will continue to give us large-scale, fraternal help. Particularly noteworthy are the big enterprises to be designed and equipped with this help; such enterprises will form yet another stone in laying the foundation for the socialist industrialization of our country. In the past, we have benefited very much by learning from the advanced experience of the Soviet Union and the People's Democracies in construction and in the spheres of science and technology. In future, we will go on earnestly learning from them.

As a member of the socialist camp, China, too, has its duty. We must acquit ourselves well of this duty. It is our duty to provide our brother countries with a large amount of farm produce, animal products, minerals and certain kinds of machinery and industrial products which they need in construction. We must make efforts to increase production or, to an appropriate extent, economize in home consumption to ensure the supply of these goods. We also need to have a sound plan for production and consumption at home in order to guarantee the necessary export goods for trading with other countries on the principle of equality and mutual benefit, each supplying what the other needs.

In the past few years, our co-operation and contacts with many Asian and African countries in the economic, technical and cultural fields have become increasingly closer. Such co-operation and contacts have been developed on an even wider scale especially since the Asian-African Conference. The overwhelming majority of the Asian and African countries urgently desire to overcome their economic and cultural backwardness caused by protracted colonial rule, and are therefore deeply aware of the necessity of economic and cultural co-operation among themselves. Our country has always advocated co-operation in these fields with other countries in Asia and Africa on the principle of equality and mutual benefit and with no conditions attached, in order to help promote each other's independent development economically and technically and, in the cultural field, to help each other develop its outstanding good features and learn from each other. This co-operation contributes to the safeguarding of the national independence of the Asian and African countries and the expansion of the area of peace. It is, therefore, beneficial to our peaceful construction. At present, the scope of this co-operation is still not very large. But the important thing is that countries in Asia and Africa have begun to

co-operate with each other and are increasing their contacts with the Latin American countries. There is undoubtedly a great future for such co-operation and contacts.

We are also willing to develop economic, technical and cultural contacts with other countries of the world on the principle of equality and mutual benefit. We have consistently endeavoured to extend our trade with the Western countries and are ready to take in all that is useful in their science, technology and methods of management and place them at the service of our cause of construction. Although the United States has been carrying out an embargo against us and has forced many other countries to follow suit, this policy which totally contradicts the interests of the people of all countries has, however, met with increasingly strong opposition from all quarters. Sooner or later, this unreasonable, artificial barrier will be swept aside.

We advocate the expansion of co-operation and contacts among nations in the economic, technical and cultural fields not only to accelerate our socialist construction, but also because such co-operation provides a reliable basis on which nations can co-exist in peace. Therefore, it conforms in every way to the interests of the people throughout the world and to the interests of the cause of peace.

* * *

Comrades! The day is not far off when the First Five-Year Plan will end in triumph and the Second Five-Year Plan will begin. In the coming year or so, all the comrades of the Party, under the leadership of the Central Committee and Comrade Mao Tse-tung, should redouble their efforts and, together with the workers, peasants and intellectuals, and together with the various nationalities, political parties and all the patriotic people of the country,

fight for the overfulfilment of the First Five-Year Plan and make active preparations for the Second Five-Year Plan. Provided we remain modest and prudent, guard against self-conceit and rashness, and correct subjectivist ideas and bureaucratic styles of work among us, we shall be able to mobilize all our forces and overcome all difficulties, and march forward in triumph in our struggle to build China into a great socialist industrial power.