

# TAXATION IN COMMUNIST CHINA

1950-59



July 1961

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**TAXATION IN COMMUNIST CHINA**  
**1950-59**

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FOREWORD

This report, which covers the years 1950-59, describes the methods that Communist China used to raise government revenue for its program of rapid industrialization and estimates the impact of taxes on the Chinese people. The economic progress of China since 1950 and the role of the government budget are described briefly in Section I. Specific measures for raising revenue are described in detail in Section II. The burden of taxes on households in China is discussed in Section III. A critique of the entire Chinese revenue structure is presented in Section IV, on the basis of traditional Western criteria of equity, social justice, economic rationality, adequacy of revenue, and ease of administration.

All available statistical data for 1950-59 have been examined in order to make the report as definitive as possible. Adequate data for 1960 are not yet available.

CONTENT

	<u>Page</u>
Summary and Conclusions . . . . .	1
I. Role of the Budget . . . . .	3
A. General Economic Background . . . . .	3
B. Functions of the Government Budget . . . . .	6
C. Trends in Revenue Collections . . . . .	7
II. Sources of Budgetary Revenue . . . . .	11
A. Tax Structure . . . . .	11
1. Agricultural Taxes . . . . .	11
a. Tax on Agricultural Output, 1950-57 . . . . .	12
(1) Tax Base . . . . .	12
(2) Tax Rates . . . . .	13
(3) Agricultural Surtaxes . . . . .	15
(4) Agricultural Tax as an Allocating Mechanism . . . . .	15
b. Changes in Agricultural Taxes in 1958 . . . . .	16
c. Miscellaneous Agricultural Taxes . . . . .	18
2. Taxes on Industry and Commerce . . . . .	19
a. Tax Structure, 1950-52 . . . . .	19
(1) Business Tax . . . . .	19
(2) Commodity Tax . . . . .	21
(3) Stamp Tax . . . . .	23
(4) Salt Tax . . . . .	23
b. Major Tax Changes in 1953 . . . . .	24
c. Major Tax Changes in 1958 . . . . .	25
3. Customs Duties . . . . .	29
4. Miscellaneous Taxes . . . . .	31
B. Revenue from State Enterprises . . . . .	33

	<u>Page</u>
1. Profits . . . . .	34
a. Distribution of Profits . . . . .	34
b. Remitting of Profits to the Treasury . . . . .	37
2. Depreciation Reserves . . . . .	38
3. Other Budget Revenue from State Enterprises . . . . .	39
a. "Return of Surplus Working Capital" . . . . .	39
b. "Receipts from the Sale of Fixed Assets" . . . . .	39
c. "Income from Other Business Activities" . . . . .	39
C. Other Budget Revenue . . . . .	40
1. Domestic Bonds . . . . .	40
2. Loans from Abroad . . . . .	43
3. Income from Insurance Operations . . . . .	44
III. Tax Burden . . . . .	47
A. Statistical Evidence of the Tax Burden . . . . .	47
1. Average Money Tax Rate . . . . .	48
2. Comparison with Tax Burdens in Other Countries . . . . .	57
B. Impact of the Tax Burden . . . . .	59
1. Effect of the Structure of Taxes . . . . .	59
2. Effect of the Level of Income . . . . .	61
3. Effect of Public Expenditures . . . . .	61
4. Effect of Nonmonetary Income . . . . .	62
5. Factors Peculiar to China . . . . .	62
IV. Evaluation of the Chinese Tax System . . . . .	65
A. Equity and Social Justice . . . . .	65
1. Progressive Nature of the Tax System . . . . .	66
a. Agricultural Tax . . . . .	66
b. Commodity Taxes . . . . .	67
c. Taxes on Private Business . . . . .	71
d. State Enterprise Profits . . . . .	71
e. Summary of Tax Progressivity . . . . .	71

	<u>Page</u>
2. Equitable Treatment of Taxpayers . . . . .	72
a. Taxes on Private Enterprise . . . . .	72
b. Agricultural Tax . . . . .	73
c. Indirect Taxes . . . . .	74
B. Economic Rationality . . . . .	74
1. Effect of Taxes on the Allocation of Resources . .	75
2. Effect of Taxes on the Price Level . . . . .	77
3. Effect of Taxes on Incentives . . . . .	78
C. Costs of Administration . . . . .	78
D. Alternative Forms of Taxation . . . . .	80
E. General Appraisal . . . . .	83

Appendixes

Appendix A. Methodology . . . . .	85
Appendix B. Source References . . . . .	113

Tables

1. Communist China: Selected Indicators of Economic Development, Selected Years, 1950-59 . . . . .	4
2. Sources of Budgetary Revenue for Selected Countries for the Period 1955-58 . . . . .	8
3. Communist China: Sources of Budgetary Revenue, 1950-59 . .	10
4. Communist China: Rates of the Commodity Tax for the Period 1950-52 . . . . .	22
5. Communist China: Comparative Rates of the Commodity Tax, 1950 and 1953 . . . . .	25
6. Communist China: Rates of Commodity Circulation Tax, 1953 . . . . .	26



	<u>Page</u>
7. Communist China: Tax Rates for Industrial and Commercial Products Under the Consolidated Industrial and Commercial Tax, 1958 . . . . .	28
8. Communist China: Chinese Import Duties, by General Commodity Class, Effective May 1951 . . . . .	29
9. Communist China: Imports and Customs Collections, 1950-57 . . . . .	31
10. Communist China: Estimated Profits and Depreciation Reserves of State Enterprises, 1952-59 . . . . .	35
11. Communist China: Distribution of Domestic Bonds, 1950-58 . . . . .	41
12. Communist China: Receipts of Credit from the USSR, 1950-57 . . . . .	44
13. Communist China: Estimated Budgetary Receipts from State Insurance Operations, 1953-58 . . . . .	46
14. Communist China: Estimated Consumer Money Income, 1950-59 . . . . .	49
15. Communist China: Total Money Taxes, 1950-59 . . . . .	51
16. Communist China: Estimated Consumer Money Taxes, 1950-59 . . . . .	52
17. Communist China: Average Rate of Money Taxation, 1950-59 . . . . .	53
18. Communist China: Indexes of Consumer Money Income and Taxes, 1951-59 . . . . .	55
19. Communist China: Effect of Tax Increases on Retail Prices, 1952-59 . . . . .	56
20. Ratio of Government Tax Collections to National Income by Selected Countries, 1950 and 1955-59 . . . . .	58
21. Communist China, USSR, US: Average Rate of Consumer Money Taxation and Personal Money Income Per Capita, Selected Years, 1951-59 . . . . .	58

	<u>Page</u>
22. Communist China: Percentage Shares of Direct and Indirect Taxes in Total Money Taxes Paid by Consumers, 1950-59 . . . . .	60
23. Communist China: Tax Rates on Selected Consumer Goods for the Period 1958-60 . . . . .	69
24. Communist China: Commodity Tax Rates on Selected Consumer Goods for the Period 1958-60 . . . . .	70
25. Communist China: Treatment of Selected Commodity Groups Under Gross Receipts Tax and Net Income Tax for the Period 1950-57 . . . . .	76
26. Communist China: Retail Commodity Taxes, 1950-59 . . . . .	93
27. Communist China: Commodity Taxes and Profits Taxes Levied at the Manufacturing Level and Shifted to Consumers, 1950-59 . . . . .	97
28. Communist China: Derivation of Consumer Money Income After Taxes Corrected for Changes in Retail Prices (Column 4, Table 18), 1951-59 . . . . .	105
29. Communist China: Derivation of Estimate of Effect of Tax Increases on Retail Prices (as Shown in Table 19), 1951-59 . . . . .	109

Charts

Following Page

Figure 1. Communist China: Relationship of Budgetary Revenue to Gross National Product, 1950-59 . . . . .	6
Figure 2. Communist China: Allocations of Budgetary Expenditures, 1950-59 . . . . .	6

Following Page

Figure 3. Communist China: Changes in Tax Collections, 1952-59 . . . . .	12
Figure 4. USSR and Communist China: Agricultural Income Tax Rates, 1952 . . . . .	16

TAXATION IN COMMUNIST CHINA  
1950-59

Summary and Conclusions

The system of government revenue in Communist China during 1950-59 was well designed to carry out the general program of forced-draft economic development. The system as a whole, as well as specific tax measures, supported the regime's policies of (1) rapid industrial growth at the expense of personal consumption, (2) complete socialization of the economy, and (3) increasing control over every aspect of economic activity. A flexible and effective tax system contributed to the control of inflation and the reconstruction of the economy in 1950-52, to the socialization of private business and farming and the development of heavy industry in 1953-57, and to the "leap forward"\* growth of industry in 1958-59. Budgetary revenue in 1959 was more than eight times the level of 1950. Taxes paid directly and indirectly by household consumers increased from 17 percent of their monetary income in 1950 to 34 percent in 1959.

Traditional sources of government revenue in China -- such as agricultural and salt taxes and customs duties -- were retained and increased during 1950-59. The regime developed new sources of revenue, including profits of state enterprises (treated as part of the over-all tax structure in this report) and a wide range of industrial commodity taxes. These new forms of revenue provided more than 90 percent of budgetary income in 1958-59. The increases in revenue and the broadening of the tax base permitted the Communists to channel more of their resources through the government budget and to direct funds toward priority investment goals, primarily the rapid development of heavy industry.

The regime successfully integrated the tax system with its general economic program. Tax laws were formulated to favor heavy industry and state enterprises and to penalize activities considered to be nonessential. Consumer goods, particularly luxuries and semiluxuries, were taxed at rates generally 3 to 10 times higher than industrial materials, and many products of heavy industry were not taxed at all. Discriminatory taxes were levied against private industry and commerce during 1950-57 in support of other measures that were taken to encourage socialization

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\* Under the "leap forward" program, men and machines were worked at an extraordinarily intensive pace in order to accelerate the expansion of physical output, almost without regard to the cost or quality of output or the balance among different products.

of private business. State-owned and cooperative enterprises accounted for more than 95 percent of economic activity in China by 1958, and the Communists then simplified agricultural and business tax laws and eliminated nearly all discriminatory features.

Communist China had a high individual tax burden in relation to per capita income. Measured by the conventional ratio between money taxes on consumers and money income of consumers, this tax burden was 34 percent in 1959, with per capita money income for that year being only about 106 yuan (\$43).\* The regime has softened the psychological impact of the tax burden by gradually increasing the proportion of taxes paid indirectly. More than 95 percent of all money taxes paid by individuals in China are now included in retail prices and are not identified as taxes.

The tax system of Communist China from 1950 to 1957 probably was somewhat progressive, but the need for progression in Chinese taxation was reduced during this period as the Communists eliminated the traditional inequalities in personal income and wealth through various forms of expropriation. The substantial revision of tax laws in 1958 removed nearly all elements of progression in the Chinese tax system. The system in 1959 probably was proportional or even slightly regressive. The reduction of inequalities in before-tax income that resulted from redistribution of income and wealth was partly offset by the regressive effect of large increases in the commodity taxes on consumer goods.

The Chinese Communists adapted their tax structure reasonably well to their program for changing social and economic conditions, although in a few instances outmoded tax laws were permitted to remain in force. The Chinese usually took advantage of opportunities to simplify specific tax measures and to reduce costs of collection when these changes did not conflict with the raising of budget revenue needed for their primary economic objectives.

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\* All yuan values in this report are in current yuan unless otherwise indicated. The official Chinese exchange rates between the yuan and Western currencies imply a rate of 2.46 yuan to US \$1. This rate may not, however, reflect for all purposes the true value of the yuan in terms of dollars.

## I. Role of the Budget

The system of government revenue in Communist China during the period 1950-59 was designed to support the general program of forced-draft economic development. The primary objectives of the government budget were (1) to restrict the rise in personal consumption and to increase the rate of capital formation (through a tax system that took an increasingly larger share of personal income) and (2) to direct funds (through budgetary expenditures) into priority investment goals that contributed to the rapid development of heavy industry.

### A. General Economic Background

When the Communists extended their hegemony over all of China late in 1949, they acquired an economy that was primarily agricultural. The great majority of China's 550 million people lived in rural areas, with a per capita annual income of less than \$50. The beginning of a heavy industrial base had been made in Manchuria under the Japanese, and modern textile mills were operating in a few coastal cities. In other parts of China, however, industry consisted only of handicraft and small-scale processes. Furthermore, the economy was disrupted by 15 years of war and a devastating inflation.

The immediate objectives of the new government were to establish firm administrative control throughout China, to stabilize prices, to begin reconstruction, and to institute land reform. The first few years of the decade were taken up with these basic tasks. The further goals of the Communists were to begin the development of heavy industry and to establish the preeminence of the state-managed economy over the private sector. The First Five Year Plan (1953-57) was devoted to these objectives and was successfully fulfilled in most of its aspects.

The Communists have claimed a phenomenal economic advance over the last 10 years, although they admit that China is still comparatively backward and will not become highly industrialized for several decades. The figures in Table 1\* are indicative of the effort that has been made since 1950 and of the emphasis given to heavy industry at the expense of consumption.

The figures in Table 1 reveal Communist China's rapid economic development, with emphasis on heavy industry. Rebuilding from international and civil war was responsible for a large part of the increases during 1950-52, but even after this reconstruction period the

\* Table 1 follows on p. 4.

Table 1  
 Communist China: Selected Indicators of Economic Development a/  
 Selected Years, 1950-59

	Unit of Measure	1950	1953	1959	Average Annual Rate of Increase b/ 1953-59 (Percent)
<b>Industrial items</b>					
Crude steel	Thousand metric tons	606	1,774	13,350	40.0
Coal	Thousand metric tons	42,920	69,680	347,800	30.7
Cement	Thousand metric tons	1,410	3,880	12,270	21.2
Metalcutting machine tools	Units	3,312	16,700 c/	70,000	27.0
Electric power output	Million kilowatt-hours	4,550	9,200	41,500	28.5
<b>Consumer items</b>					
Grain d/	Million metric tons	125	157	190	3.2
Edible vegetable oil	Thousand metric tons	607	1,009	1,460	6.4
Cotton cloth	Million linear meters	2,520	4,690	7,500	8.1
Estimated gross national product (GNP)	Billion yuan in current prices	45.42	82.38	152.20	10.8

a. 1/. For serially numbered source references, see Appendix B.

b. Average annual rates of growth are computed at the compound interest rate between the two terminal years.

c. Average production for the 3-year period 1952-54.

d. Including tubers.

progress achieved exceeded that of most developing Asian countries. China's estimated gross national product (GNP) in constant prices during the First Five Year Plan (1953-57) increased at an average annual rate of 7.4 percent, whereas the GNP of India during its First Five Year Plan (1951-55) increased at an average annual rate of only 3.3 percent. The annual rate of growth in GNP of most other Asian countries also was less than that of China during this general period (1951-56) -- Pakistan, 2.8 percent; Ceylon, 4.0 percent; Philippines, 5.1 percent; and Burma, 5.9 percent. 2/ Only Japan among the other Asian countries maintained a rate of growth as high as that of China.

The production of major industrial items in Communist China in 1959 greatly exceeded prewar levels. The sharp advance in industry was made possible by mobilizing an increasing share of resources through the state budget and economic plan and also by a decline in the proportion of national income devoted to consumption. The Chinese reported that by 1957 the division of national income between savings and consumption, which was 19.7 to 80.3 in 1952, had changed to 23.7 to 76.3.\* 4/

The ability of Communist China to sustain a faster rate of economic growth than most other Asian countries from 1950 through 1959, and to keep well ahead of population growth during the same period, is partly a reflection of differences in the Chinese pattern of economic organization. Before launching their full-scale economic drive in 1953, the Chinese Communists consolidated their control over the country. They conducted an intense ideological campaign that covered nearly every facet of life in China and conditioned the people to respond properly to state authority. Totalitarian control then made it possible to employ China's vast population in a program of rapid industrialization. At the same time, a systematic plan for exploiting China's extensive natural resources began to emerge, with advice and technical assistance from the USSR. In summary, the essential prerequisites to rapid economic progress in China were recognized by the regime as (1) a firm and effective central administration, (2) a comparatively responsive population, (3) a central economic plan, and (4) technical and material support from the USSR.

In spite of this impressive start toward industrialization, the Chinese people in 1959 were still poor. The largest gains in production were in heavy industry, leaving personal consumption comparatively depressed. From 1953 to 1959, per capita GNP increased 60 percent, but personal consumption per capita increased only about 25 percent and was still extremely low. Although by 1959 Communist China

\* In comparison, calculations of GNP in Chinese domestic prices yield a roughly parallel increase -- savings at a level of 25 percent in 1952 and 31 percent in 1957. 3/



claimed to rank among the first 10 nations in production of steel, pig iron, coal, and electric power, the per capita production of these items remained very low. Nevertheless, the effort made during 1950-59 will facilitate China's continued progress, even though the rate of growth may be somewhat slower than that attained in the immediate past.

#### B. Functions of the Government Budget

The government budget in Communist China, together with the credit and cash plans of the state bank, represents a financial control mechanism for carrying out the state economic plan. About three-fourths of all gross domestic investment in China was financed in 1959 through the central and local government budget, and the remainder was financed from extra-budgetary funds of local government units and individual enterprises.

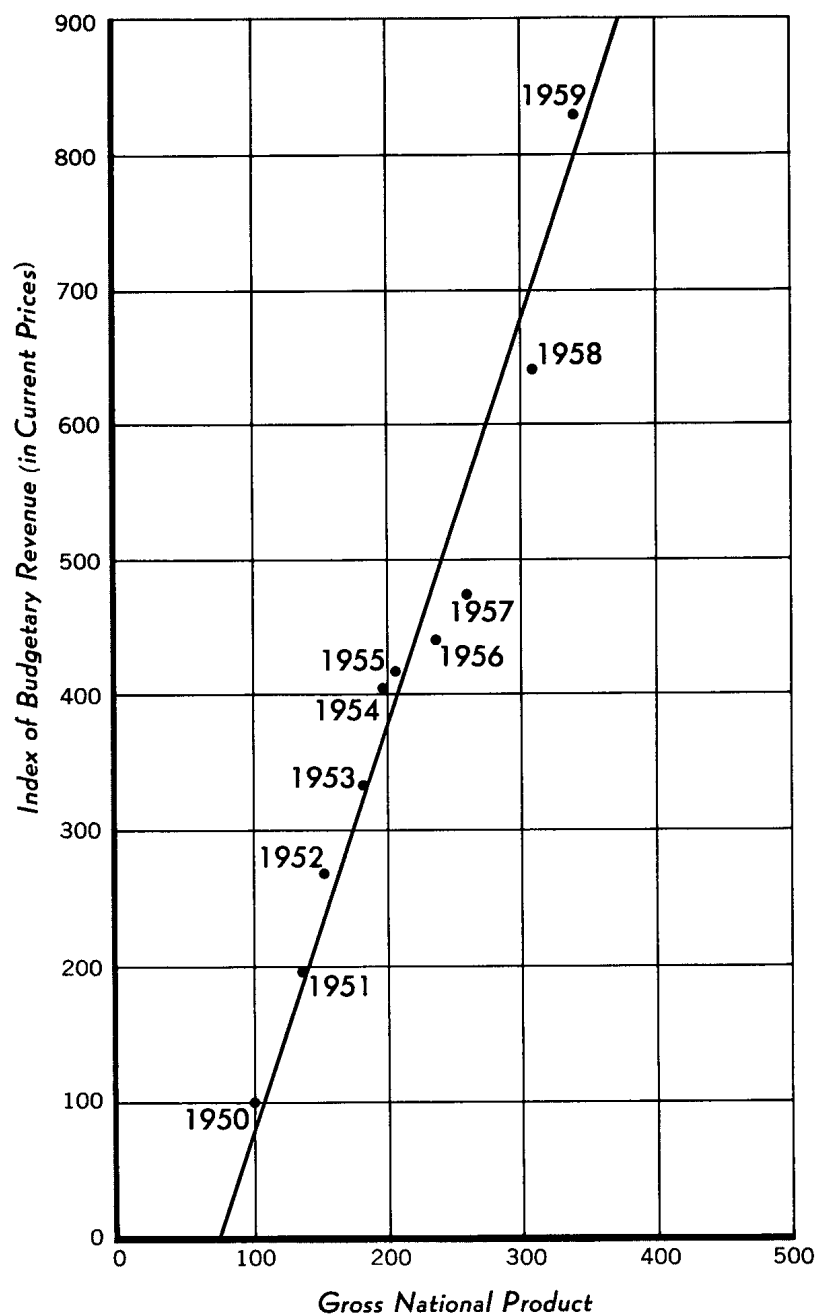
The Chinese Communists have stated that budgetary revenue goals are determined by requirements for expenditure: "Since the amount of revenue to be collected is estimated on the need for government spending, it is usually sufficient to cover the amount of expenditure." <sup>5/</sup> At the same time, the Chinese recognized the interdependence between growth in revenue-raising capability and in national income. They asserted that in planning budgetary revenues, both needs and feasibility must be considered: that "the root of budgetary growth lies in economic development and in the increase of national income" and that "the increase of budgetary revenue will in turn accelerate economic growth." The concomitant rise in budgetary revenue and in GNP since 1950 is shown in the chart, Figure 1.\* <sup>6/</sup>

The high rates of growth in GNP and in industry during 1950-59 indicate that the Chinese Communist budget effectively met the criterion of providing adequate revenues for economic development. Following the sharp decline in the private sector of the economy, which contributed only 30 percent of industrial output in 1953 and less than 1 percent in 1956, an increasing share of total investment was channeled through the budget. Of the total expenditure for capital construction in China during the First Five Year Plan exclusive of farm investment, 88.5 percent was made through the government budget, the remainder having been made by state enterprises from their own funds, by local governments with funds outside the consolidated state budget, and by private enterprises. The Chinese also financed through their budget such normal government expenditures as national defense, administration, and certain social services, although these three categories declined as a proportion of total expenditures. The chart, Figure 2,\* indicates the

\* Following p. 6.

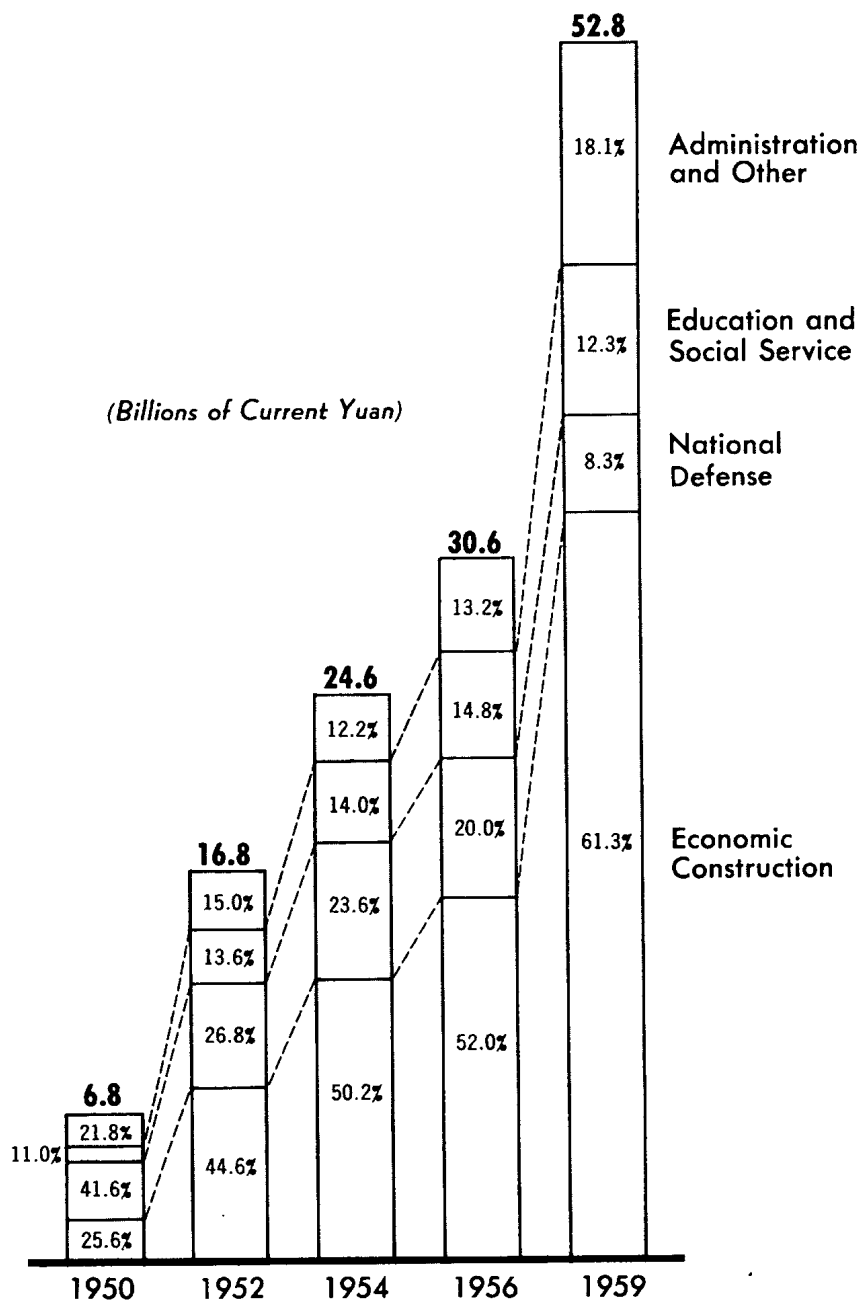
Figure 1

## Communist China: Relationship of Budgetary Revenue to Gross National Product , 1950-59



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# Communist China: Allocations of Budgetary Expenditures 1950-59



manner in which additional budgetary revenues have been allocated mainly to the budget entry "Economic Construction" in order to achieve a high rate of economic growth. 7/

Growing budgetary allocations to economic construction, rising from 26 percent in 1950 to 61 percent in 1959, were the primary source of financing Communist China's industrial growth. Economic construction consists of allocations to state-operated enterprises for acquisition of fixed assets, for supplementary working capital, and for certain miscellaneous business expenses. Expenditures on fixed assets comprised most of this total, accounting for about 85 percent during 1956-59. Industry received more than one-half of the total expenditures for economic construction during 1950-59, with a preponderant emphasis on heavy industry. In 1959, for example, industry received 61 percent of the total; railroads and communications, 16 percent; agriculture and forestry, nearly 16 percent; and all other sectors, 7 percent. The ratio of investment in light industry to that in heavy industry was approximately 1 to 6 during the period 1952-59. These extensive investments increased the value of productive fixed assets\* in China by 49,220 million yuan from 1952 to 1958 (equal to one-half the entire GNP for 1957).

#### C. Trends in Revenue Collections

During 1950-59, both the magnitude and sources of budgetary revenue in Communist China underwent marked changes. The traditional sources of government revenue -- such as agricultural and salt taxes and customs duties -- were retained and made slightly more productive, but they were greatly exceeded by new sources of income, such as levies on the profits of state-operated enterprises. New sources of revenue were essential in order to achieve the increase of nearly seven and one-half times in total government revenue from 1950 to 1959.

The general composition of revenues in Communist China in 1959 differed considerably from that in most other countries. Although taxes by 1959 were more than four times the level of 1950, they contributed a progressively smaller share of total budgetary income in China. The development of state-owned industry and commerce resulted in large profits, which accounted for the biggest single flow of funds into the budget. In Table 2,\*\* China's sources of budgetary revenue for a recent 4-year period are compared with those of several other countries.

\* Productive fixed assets are defined by the Chinese as "factory buildings, machinery and equipment used in production, railroads, highways, transportation implements of seaport docks used in transportation, and warehouses of commercial and financial operations." 8/

\*\* Table 2 follows on p. 8.

Table 2

Sources of Budgetary Revenue for Selected Countries a/  
 for the Period 1955-58

	Percent of Total Budgetary Revenue			
	<u>Communist China</u>	<u>India</u>	<u>Japan</u>	<u>USSR</u>
Taxes	47	69	92	73
Of which:				
Commodity taxes	36	26	41	44
Customs duties	2	14	3	
Direct taxes on income and wealth	9	23	47	27
Other income	53	31	8	27
Of which:				
Income from state enterprises	47			
Domestic bond sales	2			
Loans from abroad	1.4			

a. 9/

The Chinese Communists had to rely on profits from state enterprises for nearly half of their budgetary revenue because millions of Chinese peasants received much of their income in kind rather than in money and did not provide a monetary tax base sufficiently large to meet the growing revenue requirements of the regime's development plans. Nevertheless, taxes played a more important role in the economy than their share of total budgetary income might suggest. In addition to the revenue that they provided, taxes were used by the Chinese to help redistribute income, to adjust commodity prices, and to strengthen the accounting system in industry and commerce. Furthermore, the distinction between the usual corporate profits tax and net earnings remitted to the budget by Chinese state enterprises is somewhat artificial for purposes of description of revenue. Profit contributions of industry and commerce to the government sector may be called "income taxes" or "profit remittances" or even "consumption taxes," but the source of revenue is identical. The impact on the enterprise paying the tax may vary, however, according to the way in which the tax is levied.

The growing dominance of the socialized sector in the economy of Communist China is clearly reflected in the trends since 1950 in budgetary revenue sources. Scarcely a third of government income was obtained from state-owned and cooperative enterprises in 1950, whereas nearly two-thirds were contributed by private business and the private farms. By 1959, however, at least 98 percent of budgetary revenue originated in the socialized sector, including cooperative agriculture. The Chinese took advantage of this shift in sources of budgetary revenues to reduce the cost of collection of revenue. Discriminatory taxes originally levied on the private sector of the economy, partly for nonrevenue purposes, together with the early campaigns against tax evasion, required a relatively large administrative effort. With the decline of the private sector this administrative burden decreased, and in 1958 a greatly simplified tax structure was introduced for all of industry, commerce, and agriculture.

The Chinese Communists have never given a detailed breakdown of their budgetary revenues. Table 3\* includes fragmentary data from a number of sources as well as information from annual Chinese budget reports.

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\* Table 3 follows on p. 10.

Table 3  
Communist China: Sources of Budgetary Revenue  
1950-59

	Million Current Yuan									
	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
<b>Tax revenue</b>										
Agricultural taxes	1,910	2,169	2,704	2,711	3,278	3,054	2,965	2,970	3,260	3,300
Salt taxes	268	339	405	461	521	481	483	620	620	650
Customs receipts	356	693	481	505	412	466	542	460	580	650
Industrial and commercial taxes	2,363	4,745	6,147	8,250	8,972	8,725	10,098	11,300	14,179	15,698
Private business	1,910	3,312	3,458	3,422	2,872	1,671	640	240	N.A.	N.A.
Cooperatives	N.A.	N.A.	190	534	925	1,128	1,580	2,205	N.A.	N.A.
Joint public-private enterprises	N.A.	N.A.	184	265	422	556	1,580	2,855	N.A.	N.A.
State enterprises	453	1,433	2,315	4,029	4,753	5,370	6,298	6,000	N.A.	N.A.
Miscellaneous tax receipts	1	167	32	40	35	19	0	140	91	172
<b>Total tax revenue</b>	<u>4,898</u>	<u>8,113</u>	<u>9,769</u>	<u>11,967</u>	<u>13,218</u>	<u>12,745</u>	<u>14,088</u>	<u>15,490</u>	<u>18,730</u>	<u>20,470</u>
<b>Nontax revenue</b>										
Profits from state enterprises	} 870	} 3,050	4,653	6,369	8,457	9,404	11,414	11,363	18,719	28,590
Depreciation reserves and other income from state enterprises			1,077	1,301	1,503	1,786	2,016	3,057	3,301	4,770
Receipts from foreign loans	244	625	1,305	438	884	1,657	117	23	0	0
Receipts from domestic bonds	260	0	0	0	836	619	607	650	790	0
Receipts from insurance operations	N.A.	N.A.	N.A.	52	70	84	0	27	10	N.A.
Other income	247	1,179	756	1,635	1,269	908	501	410	310	330
<b>Total nontax revenue</b>	<u>1,621</u>	<u>4,854</u>	<u>7,791</u>	<u>9,795</u>	<u>13,019</u>	<u>14,458</u>	<u>14,655</u>	<u>15,530</u>	<u>23,130</u>	<u>33,690</u>
<b>Total budgetary revenue</b>	<u>6,519</u>	<u>12,967</u>	<u>17,560</u>	<u>21,762</u>	<u>26,237</u>	<u>27,203</u>	<u>28,743</u>	<u>31,020</u>	<u>41,860</u>	<u>54,160</u>

## II. Sources of Budgetary Revenue

### A. Tax Structure

The Communists inherited the Nationalist tax structure in both urban and rural areas when they assumed power in all of China in 1949. They acquired for the first time a diversified system of taxation that enabled them to begin mobilizing the resources of China for the early years of reconstruction.

Many changes were made, beginning in 1950, to fit taxes into the pattern of socialist development in Communist China. The traditional forms of revenue, such as the salt tax and customs duties, were subjected primarily to changes in rate, with only slight alterations in structure and objectives. Sharp discriminations were incorporated into the new taxes on commerce and industry, which were designed to help direct private resources into useful activity and to eliminate nonessentials. A progressive tax was levied on agriculture to assist in the objective of redistributing incomes in the countryside. Minor tax revisions were made in 1953, and substantial changes in tax laws were made in 1958, when many simplifications were achieved and the entire tax structure was overhauled to reflect the dominance of socialist forms of organization.

Tax collections declined as a proportion of the total budgetary revenue from about 75 percent in 1950 to less than 40 percent in 1959. Nevertheless, the volume of tax receipts in 1959 was four times the level of 1950. The trend in the collections of major taxes was uneven, as indicated in the chart, Figure 3,\* with industrial and commercial taxes showing the largest increase.

#### 1. Agricultural Taxes

The Chinese Communists made numerous changes in the agricultural tax during 1950-59 to fit the varying stages of their land reform program and used the tax to further their political objectives among the rural population. During the disruptive years of the civil war, ending in 1949, when adequate data were lacking on land, population, and output, taxes were collected according to "roughly estimated quotas." <sup>10/</sup> In the new areas that the Communists acquired after 1949, progressive taxes generally were imposed on the gross income from land. These taxes continued in force with minor variations through 1957. Proportional tax rates on agricultural income were applied only in some

\* Following p. 12.



areas of North China and Manchuria where redistribution of land had been completed. In 1958, following establishment of farm cooperatives throughout rural China, proportional rates became universal.

a. Tax on Agricultural Output, 1950-57

(1) Tax Base

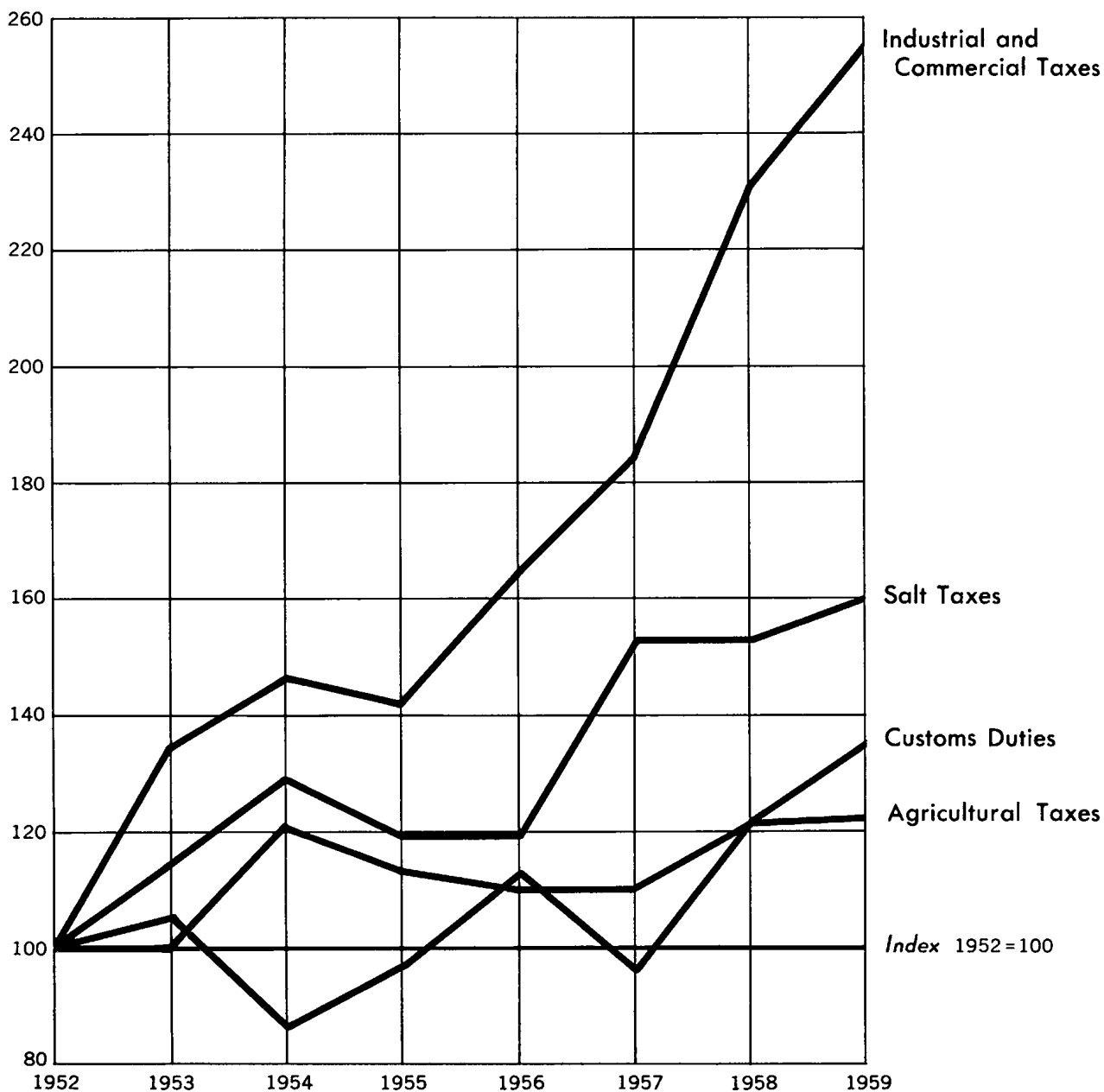
The agricultural tax in China is levied on the "set yield" of the land rather than on the actual yield obtained each year. Committees designated by local government units compute the set yield in relation to the normal annual output of the land in their areas, giving consideration to the natural capacity of the soil, the extent of irrigation, and the use of fertilizers and assuming normal methods of cultivation. Once determined, this set yield may remain unchanged for several years. The agricultural tax is levied on income-yielding land regardless of whether the actual farms are producing food grains, industrial crops, orchard products, vegetables, or other crops. In most cases the tax is not levied on income from livestock raising or nonagricultural side occupations such as peasant handicrafts. About 90 percent of the agricultural tax is paid in farm produce, primarily grain, and the remainder is paid in cash.

The "set yield" of the Chinese agricultural tax has some disadvantages common with the "assessed value" of land in real estate taxation. The spread in the normal real estate tax between assessed values and market values that increases during a general price rise is paralleled in the Chinese tax by the difference between the set yield and the increasing annual output. In Kansu Province a set yield that was established in 1952 at a level close to the actual yield represented only 51.96 percent of the actual yield in 1956, and in Anhwei Province the set yield established in 1952 was only 63.1 percent of the actual yield in 1955. The nationwide set yield in 1957 was reported to be 69 percent of the actual production in that year. 11/ This wide separation between assessed and actual values makes the tax less related to ability to pay than a more current levy such as the income tax and also leads to greater variations between taxes paid by individual farms. In individual cases in Communist China the set yield has been reported to be as much as 15 to 20 percent higher than the actual output, with effective tax rates correspondingly high. 12/

On the other hand, the set yield assessment gives farmers an incentive to develop their land and increase production without fear of still higher taxes. Furthermore, the set yield and its corollary, the fixed tax, induce farmers to cultivate all of their land every year because partial cultivation results in lower

Figure 3

## Communist China: Changes in Tax Collections, 1952-59



35088 7-61

income and a higher effective tax rate. The Communists have stressed the incentive aspect by assuring the peasants that taxes (and assessed income) will be fixed for a number of years. 13/ At the same time, if it became necessary to raise agricultural tax revenue, the government had the option of raising tax rates or the tax base or both.

The Chinese Communists have used a system of tax reduction, rather than deduction from net agricultural income, to make allowances for special circumstances. Reduction of taxes is granted for crop losses caused by natural disasters. Local committees determine the extent of loss and express it as a percentage of the set yield. A percentage reduction in the normal tax payable, which varies with the extent of the loss, is then permitted. For example, a crop loss of less than 20 percent carries no tax reduction, a crop loss of 20 to 30 percent carries a 25-percent tax reduction, and a crop loss of more than 60 percent results in complete tax exemption. In addition, a tax reduction of 10 to 20 percent was granted under certain conditions to households that were considered to be impoverished. As an incentive to increase the total area under cultivation in China, newly plowed land is tax exempt for a period of 3 to 5 years. 14/

## (2) Tax Rates

The Chinese Communists have applied either progressive or proportional tax rates to the set yield, depending on the extent to which land reform had been completed in specific areas. The major objectives of land reform were to redistribute landlords' holdings among the peasants and to achieve a more equitable distribution of income among people farming their own land. Under this program, more than 100 million acres of land had been distributed to 300 million peasants by the end of 1952. 15/ The objectives of land reform had been met sufficiently in parts of North China and Manchuria by 1951 to permit the use of proportional rates in those areas. One of three rates -- 13, 18, or 20 percent -- was applied to each specific area. In 1952 these three rates were raised to 15, 21, and 23 percent. In some areas where proportional tax rates were used, personal exemptions were permitted in order to take account of variations in the size of families. 16/

A series of progressive tax rates was applied to the set yield in most areas of Communist China during 1950-57. The first set of rates, established in September 1950, began at 3 percent of the first 200 to 253 pounds of grain per capita in the household and advanced by one percentage point for each income bracket to a maximum of 42 percent. For the year 1950 only, the following three methods for calculating income under this tax measure discriminated against landlords and favored tenants: (a) income from rented land

was discounted 20 percent and taxed at only 80 percent of its assessed value; (b) income from land rented out was marked up 20 percent before applying the tax; and (c) self-cultivated land was taxed on actual assessed income. This set of tax rates, without the discriminatory feature, was applicable for several additional years after 1950 in areas where land reform had not been completed, comprising about 34 percent of the rural population. In areas where landlords had been "eliminated" but farm income still differed among families, a new set of rates was established ranging from 5 to 30 percent. The minimum rate for these areas was raised to 7 percent in 1952. These areas covered about one-third of the farm population in 1951. 17/

To determine the tax payable, the farmer's set yield of grain (as assessed by the local committee) was divided by the number of persons in his household. This per capita income was multiplied by the appropriate rate in the tax table to obtain a per capita tax, which was then multiplied by the number of persons in the household to obtain the total amount of tax due from the household. The tax rates and tax payments may be illustrated as follows 18/:

<u>Per Capita Income</u> <u>(Catties)*</u>	<u>Per Capita Tax</u> <u>(Catties)</u>	<u>Tax Rate</u> <u>(Percent)</u>
200	16	8
300	30	10
400	48	12
500	70	14
600	96	16
700	119	17
800	144	18
900	171	19
1,000	200	20

Once the number of dependents in a household had been determined, no subsequent change was permitted for tax purposes, even though births and deaths might add to or subtract from the actual number in the household. 19/ This inflexible position did not permit any tax relief as the size of the family increased, but it made the agricultural tax easier to administer. Because both the set yield and the size of the household were fixed for a period of years, the actual tax collections from individual households did not change.

The tax imposed by the Chinese Communists on agricultural income and the income tax imposed on farm income in the USSR in

\* One catty equals 1.1023 pounds avoirdupois.

1952 have approximately the same degree of progressivity. In the chart, Figure 4,\* the Chinese tax rates are those cited above for 1952, whereas the Soviet rates are those applied to collective farmers in the same year.

### (3) Agricultural Surtaxes

Agricultural surtaxes, not included in revenues of the state budget, were collected by local government units in Communist China at varying percentages of the basic tax. They were authorized in 1950 at rates not to exceed 15 percent of the basic agricultural tax, but in practice they sometimes exceeded this maximum. For example, the Chairman of the Kwangtung Provincial Government reported that in 1951 as many as 225 surtaxes and other levies were imposed by local government units on farmers in that province, with a total rate of nearly 100 percent of the basic agricultural tax and, in some individual cases, as high as 300 percent. 20/

The official directive on agricultural taxes for 1952 stated that "all local surtaxes in the agricultural tax system are hereby abolished." 21/ It has been widely reported, however, that surtaxes continued to be collected after this official decree of 1952. Thus a surtax of 5 percent was levied in 1954 throughout Kwangtung Province to be used as relief funds in flood-stricken areas. 22/ Lower units of government also continued collections of surtaxes to meet part of their revenue needs. The central government again officially approved of the collection of surtaxes by announcing in the national budget plan for 1956 a ceiling of 22 percent for local levies and surtaxes. The amount of agricultural surtaxes actually collected in 1956 was reported to be approximately 15 percent of the basic agricultural tax. Agricultural surtaxes in 1958 and 1959 amounted to 440 million yuan each year. 23/

### (4) Agricultural Tax as an Allocating Mechanism

The agricultural tax was used before 1956 by the regime in combination with its price-fixing powers to achieve effective control over the proportion of agricultural land devoted to industrial crops. Differential taxes and exemptions continued to be used after 1956, as they were in the USSR, to encourage certain crops. In assessing land sown to an industrial crop (such as cotton, tobacco, or hemp), a set yield in terms of that crop itself was not used but, instead, the set yield of food grains that could be obtained from the same land. State purchase prices for industrial crops were set so that income from industrial crops generally was higher than from food grains, although the value of the tax paid on both crops was equal. In 1950

\* Following p. 16.

and 1951, cotton growers, in addition to their more favorable crop assessment, also were granted preferential tax rates. Because of the tax and price advantages that were granted, the Chinese reported that acreage sown to cotton doubled between 1949 and 1952. 24/ In 1953, incentives to cotton growers were modified by altering the official purchase price ratio between rice and ginned cotton from 8.1 to 1 in 1951 and 1952, to 6.75 to 1. 25/ In 1956 the official prices for oil-bearing crops were raised to stimulate production. Because of price and tax advantages granted to growers of industrial crops, the average amount of food grain crops taken in taxation in 1952 was reported to be 14.2 percent of the total value, whereas the tax proportion of industrial crops was only 8.3 percent. In 1957, these ratios were 12.2 percent and 6.4 percent, respectively. 26/

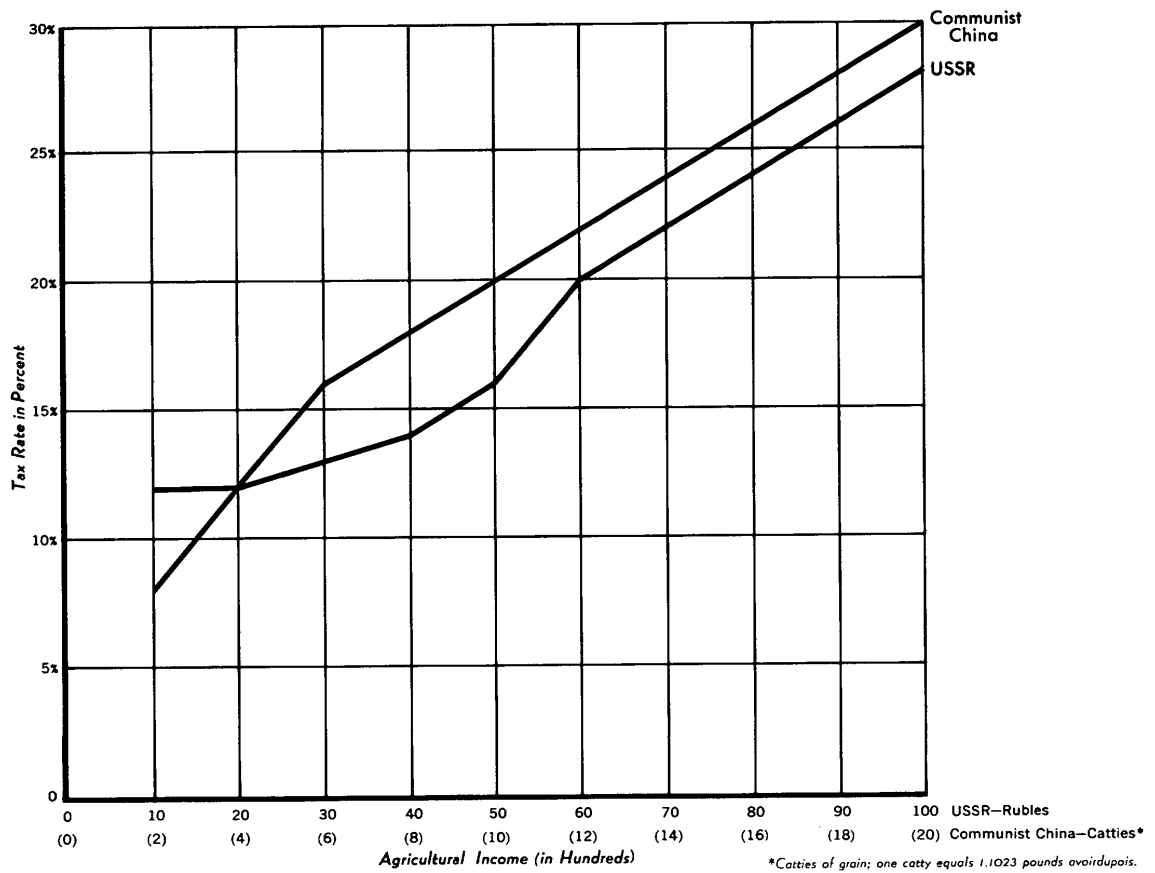
b. Changes in Agricultural Taxes in 1958

A new agricultural tax regulation was approved by the Standing Committee of the National Peoples Congress on 3 June 1958, 27/ which designated farm cooperatives as principal taxpayers and substituted proportional for progressive tax rates throughout China. The new law also gave more discretion to local government units in tax administration, retained local surtaxes, and provided stability of the set yield for a number of years.

The effort to group all rural families in Communist China into large farm cooperatives was pushed vigorously in 1955, and by the middle of 1956 only 3 percent of farm families still remained outside the cooperatives. With this transfer of land and farm equipment from private to collective ownership, the cooperatives became by far the largest single group of prospective taxpayers in rural areas. In the latter part of 1958 the cooperatives were merged into large communes, which in turn became the major taxpaying units. In 1959 the production brigade, a subdivision of the commune and corresponding in size to the old cooperative, was designated as the taxpaying unit. The only individual farm families required to pay the tax under the new legislation were those who remained outside the cooperatives and cooperative members who still owned private plots of land. State farms (relatively very few in number) and other organizations receiving agricultural income also were named as taxpayers. The bulk of the peasant households were thus excused from payment of the agricultural tax directly and felt the effect of the tax only in an indirect way through reduction in their share of the cooperative income. The number of taxpayers was greatly reduced, from roughly 100 million households to less than 1 million cooperatives, a procedure that reduced the cost of administration.

Figure 4

### USSR and Communist China: Agricultural Income Tax Rates, 1952



The method of assessing agricultural income was changed only slightly in the new tax measure. The set yield in terms of food grain crops was retained as the assessment for land producing food grains and potatoes but was raised from earlier levels. Under the new regulations, land devoted to industrial crops, which previously had been assessed on the basis of the same type of land sown to food grains, was assessed slightly higher than food grains but still lower than the actual income from industrial crops. The Chinese claimed this change removed some of the advantages held by producers of industrial crops compared with producers of food grains but still left sufficient incentive to enlarge the total acreage planted to industrial crops. 28/ For tax purposes, all crops had to be converted into the principal food grain of the region according to ratios fixed by the provinces. The set yield was to remain unchanged over the 5-year period beginning in 1958.

The national average rate of tax for 1958 was set at 15.5 percent of the set yield, with a maximum in any case of 25 percent. The State Council was empowered to fix the average rate for each province, autonomous region, and municipality, which in turn were authorized to fix the average rates of tax for each local subdivision under their administration. If necessary, these local subdivisions (counties) could then request authority to set the individual rates of tax for different areas under their control. By this delegation of authority, local government units, with their detailed knowledge of crop conditions, could adjust tax rates over comparatively small areas to reflect the general capacity to pay. The need for this local authority was evident from a Chinese report in 1959 that poor soil made up 20 to 30 percent of the total cultivated land in many provinces, with yields usually 50 percent lower than the average. 29/ In effect, the local authorities could impose a higher than average tax on cooperatives or production brigades in fertile areas and a lower rate on those working less productive land. In Kiangsi Province in 1959, for example, the counties were authorized to vary the tax rate on production brigades from 11 to 20 percent of the assessed yield. 30/

Aside from the basic agricultural tax, to be paid to the Central Government, three local surtaxes were authorized: (1) a general surtax not to exceed 15 percent of the basic tax; (2) a special surtax, applied to certain profitable industrial and garden crops, not to exceed 30 percent of the basic tax; and (3) a surtax ranging from 10 to 50 percent of the basic tax, to be levied against independent farmers not members of a cooperative. Under this series of rates the highest possible effective rate would be 45 percent of the assessed yield, which would apply to an individual farmer paying at the maximum rates for the basic tax, the local surtax, and the surtax against farmers outside the cooperatives.



The Communists insisted that with the advent of co-operatives it was "no longer necessary to enforce the system of progressive taxation." 31/ Although proportional tax rates were in fact decreed, they were modified by the permission granted local authorities to vary the rates by different areas, some of them smaller in size than a county. In this way, some progression was retained, even though not applicable directly to individuals. Furthermore, the new tax rates discriminated sharply against independent farmers, representing an inducement for them eventually to join the cooperatives. In at least some cases, private farmers paid lower taxes in previous years, when progressive rates were used and no special surtax was levied against independent farmers.

In 1958 the government planned to increase the total amount of the agricultural tax collection by 4.6 percent above that of 1957 but at the same time planned to reduce the national average tax rate by one percentage point to 15.5 percent. The increase in collections was to be accomplished by raising the set yield, or tax base, by 12 percent. The new set yield of 270 billion catties (135 million metric tons) was then said to be equivalent to 78 percent of the actual farm output in 1957 (in terms of "fine grain"). 32/

#### c. Miscellaneous Agricultural Taxes

A number of miscellaneous local taxes were collected in rural areas of Communist China during 1950-59, with variations by locality and custom. Among them were taxes on the proceeds from the sale of live animals, vegetables, wood, charcoal, and other products; a butchery tax where part of the meat is sold; "etiquette fees" on the birth of a child; a tax on remittances received from relatives overseas; and others. 33/ The revenue from these taxes was small compared with the basic tax and surtaxes on agricultural income.

A pastoral tax imposed in Inner Mongolia was in effect a form of capital levy. A progressive tax was levied annually until 1959 on the livestock holdings of each household, with a personal exemption of 15 head for the taxpayer and each of his dependents. Rates ranged from 0.7 percent (for herds of fewer than 300 sheep) to 7 percent (for herds of 3,000 or more), with adjusted rates for other animals. In 1959, after 95 percent of the pastoral households in the area had entered communes, a proportional tax on commune holdings of livestock was substituted for the tax on individual households. The only individuals subject directly to the tax on livestock in Inner Mongolia were the few who remained outside the communes. 34/

In 1959 the Chinese Communists imposed a progressive tax on agricultural income in Tibet, based on actual yield. An

exemption of 100 kilograms of grain was granted for each agricultural worker in the household. Remaining income was taxed at rates that started at 3 percent for the bracket from 100 to 150 kilograms and advanced to 30 percent for more than 2,800 kilograms. Landlord and tenant shared the tax according to their grain shares, which usually were at the ratio of 1 to 4.

## 2. Taxes on Industry and Commerce

During the first 8 years of the Communist regime in China, taxes levied on commercial and industrial activity were more appropriate to the private than to the public sector of the economy. It was only after individual businessmen had been absorbed by the state that changes were made in taxes on business and industry. The tax structure was then greatly simplified and adapted to socialist forms of organization.

### a. Tax Structure, 1950-52

#### (1) Business Tax

A tax on the gross or net receipts of industrial and commercial enterprises operating for profit, officially called a "business tax," was in effect in Communist China from 1950 to 1958. <sup>35/</sup> It was applied in 1951 as either a gross receipts tax or a net income tax, although this alternative feature apparently was dropped some time after 1951, at which time taxpayers were required to pay both parts of the tax. State-operated enterprises, whose profits reverted to the state treasury, were exempt from the net income tax, but were required to pay the gross receipts tax where applicable. Any trade or manufacturing business considered to be a monopoly of the state was exempt from both types of tax. Also exempt from both taxes were enterprises owned by "poor artisans," any business owned by a family as a subsidiary occupation only, and all other business occupations designated for exemption by the Ministry of Finance. Certain cooperatives were not subject to this tax law, and other cooperatives that came under its purview were given preferential treatment from time to time.

An enterprise with an adequate bookkeeping system was permitted to file its own tax return. Many small enterprises in Communist China maintained only rudimentary accounting records or none at all and could not meet the accounting requirements of the tax law. The Communists devised a special procedure to collect the business tax from these small firms. Their payments were determined by "democratic tax appraisal committees" consisting of representatives from government, business, and the community.

The rates for the gross receipts tax ranged from 1 to 3 percent on merchandise sales and from 1.5 to 15 percent of gross receipts for services. In addition to this discrimination between sales and services, the rates that applied within both of these two classes gave concessions to those industries and services which the Chinese Communists considered to be most important in their plans for economic development. Enterprises in the following heavy industry groups paid a tax of only 1 percent of gross receipts: (a) mining and metallurgy (iron and steel, nonferrous metals, coal, sulfur, mica, silicon, and other minerals); (b) machine building (engines, machine tools, agricultural machinery, and other industrial machines); and (c) basic chemicals (sulfuric acid, nitric acid, hydrochloric acid, caustic soda, and other basic chemicals). A rate of 2 percent was assessed against the following enterprises: (a) rubber products (automobile tires and rubber products for industrial use); (b) fertilizers (bean cake, peanut cake, and bone); and (c) drugs and medical supplies. The general retail trade bore a rate of 3 percent, together with enterprises producing such less essential items as fans and umbrellas, clocks and watches, cosmetics, tobacco products, and "goods for ritual use."

The rates on gross receipts for services were applied in a similar, discriminatory pattern. Public utilities such as water supply, electric power, gas, and telephones all paid a tax of 1.5 percent, as did transportation enterprises and banks. For activities such as storage and construction contracting, the rate was 3 percent. A rate of 4 percent was levied on hotels, advertising firms, "story-telling tea houses," and catering services. Intermediate rates of 4 to 8 percent applied to pawnbrokers, employment services, and auctioneers, and the highest rate of 15 percent applied to stock underwriting and "middleman service in commercial transactions."

Net business income was taxed at progressive rates, with no minimum income specified and a maximum rate of 30 percent at 10,000 yuan. A discriminatory feature of the net income tax was a series of tax reductions that applied to certain activities which the government wished especially to encourage. These reductions, stated as a percent of the net income tax payable, ranged from 10 to 40 percent, as follows:

- Reduction of 10 percent: Certain essential consumer goods  
Dairy products  
Hospital supplies
- Reduction of 15 percent: Rubber and leather products  
Some construction materials  
Printing equipment  
Hand tools and machine repairing
- Reduction of 20 percent: Certain transportation items  
Some chemicals  
Export commodities
- Reduction of 30 percent: Telecommunications equipment  
Certain more important chemicals  
Some machine-building activities
- Reduction of 40 percent: Heavy machine tools, generators,  
farm machinery  
Iron and steel, nonferrous metals  
Ship and vehicle manufacturing  
Electric power generation

An enterprise qualifying for the highest reduction thus had its effective tax rate reduced from a possible high of 30 percent to only 18 percent. At least 300 million yuan in tax reduction were granted during the 7 years that this discriminatory feature was in effect. In 1957 the Chinese Communists abolished reductions from the net income tax, declaring that nearly all forms of private enterprise had become socialized and that all commodities to which the exemptions had applied would be capable of control through the state plan. 36/

## (2) Commodity Tax

A tax based on the wholesale price of specified commodities was first applied in Communist China in January 1950. 37/ Resembling a manufacturers excise tax, it was payable by producers or wholesale buyers at rates that varied from 3 to 120 percent of the taxable value of the commodity. Although the tax was amended in 1953 and again in 1958, many of the items appearing in the original measure were carried over into subsequent regulations, some of them at approximately the same effective rates.

Taxes on commodities manufactured or processed domestically were collected at the plant by the tax collector permanently stationed there. In the case of smaller plants, an "estimate

of output" was made by a visiting tax inspector, and taxes were collected on this basis, implying that at least in some cases records may have been inadequate for tax purposes or that some taxpayers were attempting to avoid a part of the tax. The taxpayer, however, could claim a rebate if his records indicated that a lower tax was payable. Imported goods were taxed at the time customs duties were levied.

The tax rates applied against the taxable value had a wide range, as indicated in Table 4.

Table 4

Communist China: Rates of the Commodity Tax  
for the Period 1950-52

<u>Commodity</u>	<u>Percent</u> <u>Tax Rate on the</u> <u>Taxable Value <sup>a/</sup></u>
Class A cigarettes	120
Cosmetics	100
Articles for religious use	80
Beer	40
Sugar	30
Wool yarn and thread	20
Cement	15
Chemical paints and dyes	10
Copper, tin, lead	5
Rubber belting and hose	3

a. The taxable value of each commodity plus the tax paid on the commodity is equal to the official wholesale price of the commodity.

The commodities subject to the commodity tax and the schedule of rates reinforced the discriminatory objectives of the business tax (described in III, 2, a, (1), above). Many commodities taxed at the lowest rate under the gross receipts tax and given the highest reduction under the net income tax (twin features of the business tax) were not subject to the commodity tax -- for example, products of the machine-building industries, iron and steel, liquid fuels, and many basic chemicals. All of these items were considered priority products by the Chinese Communists. On the other hand, commodities that bore the highest rates of the gross receipts tax and

that were granted no reduction under the net income tax were nonessential items subject to the highest rates under the commodity tax -- for example, tobacco products, cosmetics, wine, and articles for religious use.

### (3) Stamp Tax

In December 1950 the Chinese Communists imposed a stamp tax on all documents used in commercial transactions and in the transfer of property. <sup>38/</sup> Land deeds issued to farmers under the Communists' program of land distribution, all forms of transportation tickets, and sums amounting to less than 1.5 yuan (on other than amusement tickets) were all tax exempt.

The tax was applied either as a fixed amount to certain types of documents or as a percent of the value of the transaction represented by the document. Rates under the latter feature ranged from 0.01 percent (for insurance certificates only) to 0.3 percent (for bond certificates, merchandise invoices, cash receipts, and other documents). It was required that stamps be affixed to the documents concerned, although with the approval of the local tax bureau the taxpayer could dispense with stamps and pay the tax periodically in the form of a single money payment.

### (4) Salt Tax

The Communists have continued the salt tax, <sup>39/</sup> the most dependable source of government revenue in China for centuries. The ultimate burden of this commodity tax falls almost entirely on the household consumer. It is strictly a revenue measure, providing from 1 to 3 percent of the total budget income each year during 1950-59.

The earliest salt tax imposed by the Communists in 1950 was stated in terms of grain payments per unit of salt produced, with rates that varied from one broad area of the country to another. In East China, for example, the tax payment was in rice, whereas in Northeast China it was in millet or kaoliang. In the latter part of 1950 the salt tax rates were reduced, and payments were stated in monetary terms. The lowest rate of 3 yuan per picul\* of salt applied in Northwest China, 5 and 6 yuan per picul applied in some other areas, and the highest rate of 7 yuan per picul was effective in North and East China. These tax rates were applicable to table salt only. Fishery salt was taxed at 30 percent of the rates for table salt, and salt destined for agricultural and industrial uses and for export was not taxed. Rates of the salt tax were raised about 20 percent in 1957 but were reduced slightly in 1959.

\* One picul equals 133.33 pounds.

The salt tax was levied only against producers of salt and not at wholesale or retail levels. The specific tax rates applicable were supervised by local offices of the government's General Salt Tax Administration. The government-owned salt companies, engaged in production of salt and its distribution to bulk users and retailers, together with a number of private producers and distributors of salt, were given the responsibility of adjusting market prices "so as to equalize supply and demand." In this way the government controlled production, distribution, and sale of salt throughout China.

Although relatively small in the context of total government revenues, the salt tax has been one of the easiest of all Chinese taxes to administer and has been a stable source of revenue. In effect, the government salt companies paid the tax to the government salt tax offices. The private salt companies, until they were socialized, followed the same procedure as the government salt companies.

b. Major Tax Changes in 1953

A general adjustment was made in January 1953 in the taxes on commerce and industry that altered only slightly the rates of existing taxes but revised methods of calculating some taxes and subjected a small group of products to a new commodity tax. 40/ Although discussion had occurred for several years on the need to simplify the tax structure, the changes made in 1953 contributed only slightly toward this objective.

A simple rate change was made in the business gross receipts tax, increasing the rates by one-half of one percentage point in all brackets except the top. The minimum rate became 1.5 percent of gross receipts, whereas the top bracket remained at 15 percent. The rates and percentage reductions of the business income tax apparently were not changed.

The number of individual items subject to the commodity tax (the producers or wholesalers tax) was reduced from 358 to 173. Although a few of the excused items were placed under the new sales tax, some of the reduction in items may have been accomplished by consolidation of subitems (for example, four classes of cigarettes were reduced from four items under the old tax to a single item under the new tax). The new tax rates applied directly to the average wholesale price. In Table 5\* the revised rates for broad classes may be compared with the previous effective rates.

\* Table 5 follows on p. 25.

Table 5

Communist China: Comparative Rates of the Commodity Tax  
1950 and 1953

Commodity	Percent	
	Revised 1953 Tax Rate	Comparable Rate of 1950 Tax <sup>a/</sup>
Articles for religious use	50	44.4
Tobacco	40 to 50	31 to 54.5
Cosmetics	45	50
Food and beverages	5 to 30	2.9 to 28.6
Consumer goods	7 to 20	6.5 to 13.1
Textiles	5 to 15	4.8 to 16.7
Minerals and mineral products	5	4.8
Food grains	2	0

a. The tax rates under the 1950 tax have been made comparable to those of the 1953 tax by dividing the tax rates of Table 4 (p. 22, above) by a number equal to 1 plus the tax rate in Table 4.

A new sales tax was introduced in 1953, the forerunner of the much broader turnover tax that was initiated in 1958. This new "commodity circulation tax" was said to be based on the experience gained in the USSR and to be especially suited to socialist countries. It was levied on only 22 commodities, chosen because their sales volume was relatively large and concentrated and because they were entirely or largely under control of the state-operated economy. This new sales tax replaced all other taxes applicable to these specified commodities -- such as the commodity tax, the business tax, and the stamp tax -- and these commodities were then subject to only one tax from production to consumption.

The base of the commodity circulation tax was the state price of the commodities concerned, with variable rates as shown in Table 6.\*

c. Major Tax Changes in 1958

A new consolidated industrial and commercial tax was promulgated in 1958 to replace the commodity tax, the commodity circulation tax, the gross receipts tax, the net income tax, and the

\* Table 6 follows on p. 26.



Table 6

Communist China: Rates of Commodity Circulation Tax  
1953

Commodity	Percent Tax Rates
Tobacco and wine	22 to 66
Certain consumer goods (such as flour and matches)	10 to 22
Cement	22
Leather products and fabrics	10 to 20
Paper	10 to 18
Mineral oil	13
Nonferrous metals and timber	10
Tires and tubes	9
Coke	7

stamp tax -- all of which were thereupon abolished. 41/ The extensive changes that emerged, representing a new approach to the taxation of business, were preceded by discussion in the Chinese Communist press that took two general forms: (1) a criticism of existing tax regulations in terms of both structure and administration and (2) an assertion that China had reached the stage of socialist development that required entirely new forms of taxation.

The need to simplify the system of taxing business had been recognized by the Chinese Communists for several years. There were said to be too many taxes, too many rates, and too many collection channels. The double taxation of end products, as well as the taxation of intermediate products, had in many cases reached a stage of absurdity. 42/ For example, a firm manufacturing thermos bottles paid three taxes on the finished product -- a commodity tax, a gross receipts tax, and a stamp tax on the documents of sale. In addition, five commodity taxes were levied on the intermediate products fabricated by this firm to assemble the end product -- one each for the vacuum flask, for the mold, for the aluminum casing, for the paper, and for the aluminum sheet. 43/

Private enterprise in China had been eliminated by 1958, with a few unimportant exceptions, and practically all industrial and commercial activity was in the hands of state enterprises, joint public-private firms, and cooperatives. The Communists, therefore, insisted that the old tax structure had served its purpose and

that a new concept of business taxation was required. They followed the Soviet practice of applying the turnover tax on a broad scale, including industrial products, retail sales, imports, purchases of certain farm produce, and service trades.

Under the new regulation, important simplifications were achieved in tax assessment and collection. The five primary levies previously enforced on industry and commerce were replaced with only one tax. Intermediate products manufactured by a firm for inclusion in end products were no longer taxed. Each commodity would be taxed only once during the production process and again at retail if it reached that stage of distribution. (Taxation was retained temporarily, however, on three intermediate products -- cotton yarn, leather, and kaoliang wine). These two changes alone probably resulted in a substantial reduction in the volume of tax accounting records that had to be maintained by both taxpayers and tax collectors.

Taxes, after the 1958 reform, were levied on prices received by producers and distributors for the commodities concerned rather than on the state wholesale prices -- a change in the tax base that further simplified tax accounting records. Taxes were due at the time that sales proceeds were received, a change that removed the previous drain on working capital to finance tax payments. The regulations required that the tax be paid on the day that the proceeds of the sale were deposited in the seller's bank. The largest part of the total tax collections from industry, therefore, represented simply a bank transfer from the taxpayer to the tax office at the time that sales receipts were realized. Similar advantages accrued to retail trade and service activities, whose taxes were due on the day that the proceeds of the sales were received but whose actual payments could be made at intervals varying from 1 to 30 days, according to individual circumstances. Importers had to pay the tax when customs were due, on a base that included c.i.f. (cost, insurance, and freight) value and customs duties for industrial products and that consisted of c.i.f. value only for agricultural products. The levy on the purchase of farm produce by the wholesale trade network was based on the purchase price, with the tax due when payment for the purchase was made.

Rates under the new tax were designed to achieve the same income as the five taxes that it replaced. The highest rate for industrial and agricultural products was 69 percent for cigarettes, and the lowest, for unbleached cotton cloth, was 1.5 percent. Retail sales were taxed at 3 percent -- making the highest combined rate 72 percent (for cigarettes). Communications and transportation were taxed at 2.5 percent of their realized revenue, whereas the service trades

paid from 3 to 7 percent. The new rates, by broad categories applicable to industrial and agricultural products, are shown in Table 7.

Table 7

Communist China: Tax Rates for Industrial and Commercial Products  
Under the Consolidated Industrial and Commercial Tax  
1958

<u>Commodity</u>	<u>Percent Tax Rate</u>
Tobacco, wine, and alcohol	20 to 69
Consumer goods (including cosmetics)	6 to 55
Foodstuffs	2.5 to 44
Leather, hair, and feathers	10 to 40
Textiles and yarn	1.5 to 35
Light electrical equipment	11 to 25
Cement, brick, and timber	5 to 20
Paper and pulp	3 to 20
Coal and petroleum products	2 to 20
Rubber products	10 to 18
Rolled metal products	11 to 15
Chemical acids and alkalies	6 to 12
Metal ores and metallurgical products	5 to 10
Machines and machinery and other manufactured goods	5

Among the most important increases in the rates shown in Table 7 are the levies of 11 to 15 percent on rolled metal products and 5 percent on pig iron, steel, and machines. State producers of these products had previously been subject only to the 1.5 percent gross receipts tax and the insignificant stamp tax, although all their profits were remitted to the state. (Private industry had been of no consequence in production of these items for several years.) This change reflected the government's hope of shifting a part of the budget revenue obtained in these activities from profits remittances to the commodity tax. The Communists had acknowledged that total profits in these (and other) state enterprises should be reduced as an incentive to better management and the reduction of costs. At the same time, variations in profits and costs were so great among different activities and among individual plants in a single industry that often very little change was possible between taxes and profits. The increases achieved in these particular tax rates in 1958, although small,

were a first step in the solution of the uneven tax-profits ratio and put the Chinese Communists closer to the Soviet pattern in this respect. Nevertheless, it was planned that taxes would continue to be less important than profits, at least in the short run, as a source of budget revenue from commerce and industry as a whole.

### 3. Customs Duties

The Communists levied an ad valorem tariff on Chinese imports, ranging from 5 to 100 percent, and on the export of six specific commodities. Customs duties had accounted for no more than 5.5 percent of the total government income in any year and in most years less than 3 percent. The import duties were levied on c.i.f. value or, where this was not available, on an adjusted domestic wholesale price. The commodities were divided into five general classes, as shown in Table 8.

Table 8

Communist China: Chinese Import Duties, by General Commodity Class a/  
Effective May 1951

	Percent
General Commodity Class	Rates on C.I.F. <u>b/</u> Value
Essential goods (such as machinery, industrial raw materials, and agriculture)	5 to 20
Less essential goods (such as kerosine, carbolic acid, and machinery belting)	25 to 40
Nonessential goods (such as coal and fresh fruit)	50 to 100
Protected goods (such as cotton and woolen textiles, sugar, and matches)	10 to 30 percent higher than the difference between the wholesale price of the domestically produced article and the c.i.f. price of the imported articles

a. 44/

b. Cost, insurance, and freight.

The high rates in the last commodity class probably were justified initially as necessary to protect infant industries. There is no evidence available, however, of the extent to which these high rates may have been used to limit the import of goods whose domestic production the Chinese were encouraging. The need for customs protection of home industry would in any event have been of short duration because the Communists organized nearly all foreign trade in 1951 under a system of government trading companies.

All exports from Communist China were duty-free except the following six commodities: hog bristles, taxed at 30 percent; peanuts, at 15 percent; peanut oil, at 10 percent; tung oil, at 10 percent; and peppermint oil and menthol, at 55 percent. There were no apparent reasons, apart from revenue, for assessing duty on these products, because their export was subject to direct controls. Export duties were abolished on 1 January 1959.

Chinese Communist import duties may have served a nonrevenue function in trade with non-Communist countries. Imports from the West consisted of consumer goods and less essential machinery and raw materials that fell in the categories carrying the highest import duties. Duties on these imports from the West probably were kept high to equalize in part the price differences between imported goods and more costly domestically produced goods. The Chinese have stated that if the value of commodities traded with the West were converted into yuan at the official yuan rate of exchange for Western currencies and compared with domestic prices, there would be losses on exports and profits on imports. The losses that Chinese foreign trade companies incurred by procuring products for export at domestic prices are said to have been made up by the gains realized on selling imported goods in the domestic market. <sup>45/</sup> The selling gains were achieved, apparently, even after payment of the relatively high tariff duties. A rough measure of the price differential between domestic prices and the landed costs of imported goods (including tariff) is implied in the formula used to assess imports when the c.i.f. value is unknown. In cases where it was not possible for customs authorities to obtain an adequate c.i.f. value, they ascertained the dutiable value of a commodity by the following formula:

$$\text{Dutiable value} = \frac{\text{Domestic wholesale price} \times 100}{100 + \text{import tariff} + 20}$$

This formula has the effect of discounting the domestic wholesale price by 20 percent in addition to the required discount for import tariff in order to equate it with the c.i.f. value.

Customs duties averaged about 12 percent of the value of total imports but represented a generally decreasing proportion of imports, as indicated in Table 9.

Table 9  
Communist China: Imports and Customs Collections a/  
1950-57

Million Current Yuan			
<u>Year</u>	<u>Imports</u>	<u>Customs Collections</u>	<u>Customs Collections as a Percent of Imports</u>
1950	2,120	356.5	16.8
1951	3,500	693.6	19.8
1952	3,740	481.2	12.9
1953	4,590	504.8	11.0
1954	4,427	412.2	9.3
1955	6,080	466.1	7.7
1956	5,297	542.0	10.2
1957	4,840	460.0	9.5

a. 46/

The rise in customs duties in 1951, both in absolute magnitude and as a proportion of the value of imports, showed the effect of introducing a new and generally higher tariff schedule in May of that year. The annual decline of customs collections as a proportion of imports from 1951 through 1955 probably reflected two primary factors: (a) a shift in the composition of imports to the more essential commodities required in economic development (which carried lower import duties) and (b) a change in the direction of trade from Western countries to countries of the Soviet Bloc that tended to reduce customs receipts because the Chinese maintained a lower schedule of rates for those countries with whom they had government-to-government trade agreements. Until 1955, agreements of this kind existed primarily with countries of the Soviet Bloc, although subsequently trade agreements were signed with governments of non-Communist countries as well.

#### 4. Miscellaneous Taxes

Miscellaneous forms of taxation were instituted in Communist China primarily for revenue, but they made a relatively small contribution to the total government receipts. Most of these taxes

provided income only to local government units, supplementing revenue from taxes shared with the central government.

The national conference on tax administration, which the Chinese Communists held in November 1949, drafted a program to provide revenue for central and local government from 14 basic taxes, including one on "salaries and other remuneration" and another on inheritance. Neither of these two taxes was implemented. <sup>47/</sup> The Communists have never taxed most types of inheritances and gifts (except real estate gifts) or the income of wage earners, although wages have been subject to a tax ranging from 1 to 2 percent.

Income from interest was taxed at the flat rate of 5 percent beginning in December 1950. The tax base included interest received on bank deposits, bonds and other securities, and loans to employees but excluded interest from "stocks invested in industrial development"; loans by banks; personal credit among workers; interest receipts amounting to less than 5 yuan; and nonprofit funds held for education, cultural, and charitable purposes. As a safeguard against evasion, administrators of the nonprofit funds were required to obtain tax-exemption certificates and to furnish reports on disposal of their interest income. The tax had a withholding feature that required those who paid interest to remit the tax to the treasury. For providing this service, the tax withholder was authorized to deduct 1 percent of the tax payment. In 1958, all the revenue from this tax (as well as its administration and the authority to set rates) was given to local (provincial) governments. The tax on income from interest was abolished on 1 January 1959, but the loss of this tax revenue was compensated for by a reduction in the interest rates paid by the Peoples Bank on individual savings accounts. <sup>48/</sup>

During 1950-59 the slaughter of seven kinds of livestock -- including hogs, lambs, and cattle -- was subject to a local tax. The tax base was determined by state retail prices and by the actual weight of the animal or, in areas where weighing was not possible, by a series of standard weights. No tax was imposed on slaughter for home consumption. A tax rate of 10 percent of sales value was in effect until April 1957, when the tax rate was reduced to 8 percent. In 1957 it also was decreed that all who paid the slaughter tax would be exempt from payment of any other business taxes, a measure applicable primarily to cooperative and joint public-private slaughterhouses. It was said that these changes, calculated on the basis of tax collections in 1956, would reduce the burden of these measures by 38 percent, or 200 million yuan, implying that in 1956 the total collection of slaughter and business taxes on animals was approximately 526 million yuan. <sup>49/</sup> For 1953-56 these tax collections were said to equal 1,917 million yuan, roughly the same order of magnitude as customs duties or salt revenues during the same period.

A municipal tax on land and houses was applied during 1950-59 in some 150 to 200 cities in Communist China. Permission to levy the tax had to be obtained from the Ministry of Finance (of the central government). Assessments and rates, and consequently tax payments, usually remained unchanged for several years. Until 1957, tax exemption for a 2- or 3-year period was granted to newly built or newly repaired houses belonging to state, cooperative, and joint public-private enterprises. All title deeds involving land and houses were subject to a local tax on the sale price, including 3 percent on mortgages, 6 percent on sales, and 60 percent on gifts. 50/

In 1951 a local tax was adopted for "special forms of consumption" -- primarily a receipts tax of 10 to 20 percent for restaurants, 5 to 10 percent for hotels, and 10 to 30 percent for amusements such as theaters, circuses, and musicals. A deduction of up to 50 percent of the tax was permitted for any motion picture or drama that had a proper political character. The tax rates were higher in large cities and declined for successively smaller urban areas. In 1956 the amusement tax was revised to broaden the exemptions (some newsreels and documentary and scientific films and shows for the armed forces and for children) and to reduce rates to a level of 2 to 25 percent. 51/

Miscellaneous fees and licenses were collected by local government units for local purposes, including license taxes on vehicles and vessels, judicial fees, funeral fees, various types of registration and inspection fees, survey and construction license fees, and other types of fees.

#### B. Revenue from State Enterprises

Receipts from state enterprises were the most important source of budgetary income in Communist China. Since 1950, when they amounted to less than 15 percent of the total, they increased at a faster rate than over-all budget receipts and in 1959 comprised about 60 percent of the total government income. The growth in this source of revenue was the result of (1) the construction of new state enterprises, expansion of existing enterprises, and acquisition of private facilities; (2) the growth in depreciation reserves, resulting from the large increase in physical assets; (3) the gradual reduction in some industrial costs; and (4) the state policy of maintaining prices sufficiently high to assure a large volume of profits.

The budget receipts from state enterprises were composed of (1) profits, (2) depreciation reserves for amortization of fixed assets, (3) return of surplus working capital, (4) receipts from sale of fixed assets, and (5) income from other business activities. The Communists have not released detailed figures for each of these components, but profits and depreciation reserves probably accounted for



nearly all of the total. An estimate of the distribution of budget receipts between profits and depreciation reserves is given in Table 10.\*

### 1. Profits

The Chinese Communists have defined profit as "the net income of sales proceeds obtained according to state-regulated prices after the deduction of production cost and tax payments." <sup>52/</sup> Although they admit that this residual is frequently referred to as "profit," they are careful to point out that it should not be confused with the same term as used in a capitalist system. The Communists justify the use of profits only when they serve as a source of funds for investment.

Profits of Chinese state enterprises averaged about 21 percent of the value of fixed assets during 1953-58. It is estimated that profits of industry alone in 1955 and 1956 (excluding transportation, communications, trade, and services) represented about 28 to 30 percent of the value of fixed industrial assets in each year. In order to achieve this high rate of industrial profit, the Chinese followed a different price policy from that of the USSR, which set low prices on heavy industrial products and acquired only a small part of its investment funds from the profits of heavy industry. The Chinese, on the other hand, priced industrial products relatively high and obtained large industrial profits. In 1955 and 1956 the Chinese obtained more than one-half of the funds used for economic construction from industrial profits alone. These high industrial prices reflected the relative scarcity of industrial goods in China, and they provided the Chinese with a more logical valuation of industrial products in their relatively underdeveloped economy than if they had followed the Soviet policy of lower industrial prices.

#### a. Distribution of Profits

Almost the entire profit accumulations of state enterprises in 1950-59 in Communist China were remitted to the government treasury, a practice that differed considerably from that of the USSR. In the USSR, one part of the total net profit of an enterprise was used for working capital and capital construction, another part was used for employee welfare and bonus payments, and a third part was paid to the state as a profits tax. The Chinese enterprise, by contrast, surrendered all its profits, except a small bonus fund, to the treasury and received all the funds that it needed for working capital and for construction as appropriations from the government budget.

The initial regulation on profit distribution adopted in Communist China in April 1951 specified that all planned profits

\* Table 10 follows on p. 35.

Table 10

Communist China: Estimated Profits and Depreciation Reserves of State Enterprises  
1952-59

	Million Current Yuan <sup>a/</sup>							
	1952	1953	1954	1955	1956	1957	1958	1959
Total revenue from state enterprises <sup>b/</sup>	5,730	7,670	9,960	11,190	13,430	14,420	22,020	33,360
Fixed assets of state enterprises	29,600	33,350	37,960	43,740	51,980	61,660	78,820	N.A.
Depreciation reserves	977	1,101	1,203	1,386	1,516	2,457	2,601	3,970
As a percent of the total revenue from state enterprises	17.1	14.4	12.1	12.4	11.3	17.0	11.8	11.9
Profits	4,653	6,369	8,457	9,404	11,414	11,363	18,719	28,590
As a percent of the total revenue from state enterprises	81.2	83.0	84.9	84.0	85.0	78.8	85.0	85.7
As a percent of the fixed assets of state enterprises	15.7	19.1	22.3	21.5	22.0	18.4	23.7	N.A.

a. Unless otherwise indicated.

b. Profits and depreciation reserves comprise nearly all of the revenue remitted by state enterprises to the state treasury. In order to account for the other three items included in the total revenue from state enterprises -- return of surplus working capital, receipts from sales of fixed assets, and income from other business activities -- an arbitrary amount was attributed to these items, beginning with 100 million yuan for 1952 and increasing by annual increments of 100 million yuan to the sum of 800 million yuan for 1959. For sources and methodology, see Appendix A.

would go to the government but that 30 percent of profits in excess of the plan could be retained by the enterprise as a bonus fund. In January 1952 this regulation was amended to establish a bonus fund for all enterprises rather than restricting the fund to the enterprise that exceeded its profit goal. The size of the bonus fund varied among different branches of industry, depending on general labor conditions, the degree of hazard involved, and other factors. In such industries as ore mining, coal, petroleum, chemicals, ferrous and nonferrous metals, and building construction, bonus fund deductions amounted to 5 percent of planned profit and 20 percent of the profits in excess of the plan. In some other industries such as electrical, machine-building, shipbuilding, and some light industries, the rates were 12 and 25 percent, respectively. In any case, the total amount in the bonus funds was not to exceed 15 percent of the annual basic wage bill. 53/

The bonus fund was used for direct bonuses to top workers in the enterprise, for "temporary assistance" to the best workers (not to exceed 5 percent of the bonus fund), and for improving the cultural and living conditions of all workers (such as construction of employee housing, hospitals, eating places, and clubs). The Chinese described the bonus fund as an important stimulant for workers of state enterprises because it encouraged them to reduce production costs and increase profits. In 1957, according to "preliminary statistics," bonuses earned by industrial enterprises amounted to 2.8 percent of the total amount of industrial profits.

A second category of profit distribution appeared in 1957. Reportedly, 40 to 60 percent of the profits in excess of the plan were given to central government departments in charge of industrial enterprises or to local government units, to be used as reserve funds for production and capital construction. Both the recipients and the purpose of this second fund were thus different from the bonus fund that was retained by the enterprise itself. The funds acquired by government departments from this source were said to represent 4.5 percent of the total industrial profits earned in 1957.

The retention of profits as enterprise and departmental funds was relatively minor in the years before 1958, probably averaging less than 5 percent of the total budgetary contributions from all types of state enterprises. Specific figures for profits retained by industrial enterprises are available only for the year 1957, when 2.8 percent of the total industrial profits was retained in the enterprise as bonus funds and 4.5 percent was given to departments administering industrial enterprises. Thus 7.3 percent of the total industrial profits was retained in 1957, and 92.7 percent was forwarded to the central treasury. Retained profits of state commerce and services were rarely mentioned in the Chinese press. It is believed that the absolute amounts of bonus

funds for industry were higher than those for commerce and services because of the generally greater emphasis on industrial production and because of the large number of employees in industry who would benefit from enterprise welfare expenditures such as housing, hospitals, clubs, and similar group activities.

In 1958 the two elements of retained profit (bonus funds and departmental funds) were combined into a single enterprise fund. Enterprises shared in their total net profit according to the ratio of the following two elements: (1) the numerator was the sum of (a) the total amount of bonus fund earned during 1953-57, (b) the share of above-plan profit allotted to the enterprise during 1953-57, and (c) the amount spent on four current expense items during 1953-57 (expenses on technical and organizational improvements in production, on trial production of new products, on labor protection, and on purchase of miscellaneous fixed assets), and (2) the denominator was the total amount of net profit reported by the enterprise during 1953-57.

The ratio of (1) to (2) above was applied against the profit of each enterprise beginning in 1958 to determine the amount of profit that could be retained. This ratio was to be used without change for 5 years. It was said that in 1958 this new plan would raise to 10 percent the proportion of profit retained by the enterprises, and if this plan of 10 percent had been fulfilled, the profit retained by all state enterprises in that year would have been about 2 billion yuan. It was reported, however, that the total profits actually retained by state enterprises amounted to 2,970 million yuan in 1958, approximately 14 percent of the total profits earned, and to 3,999 million yuan in 1959. Retained profit of industry was 2,181 million yuan in 1958 and 2,924 million yuan in 1959, whereas retained profit of "trade and supply" was 443 million yuan in 1958 and 579 million yuan in 1959. The increase in retained earnings in 1958-59 compared with previous years is partly illusory, however, because the enterprise no longer received direct budgetary appropriations for the four items of current expense included in the new profit ratio. These expenses had to be financed by the enterprise itself from its large retained profit. 54/

b. Remitting of Profits to the Treasury

Profits, as well as depreciation reserves, were remitted to the treasury either directly by the enterprise concerned or through the central government department that administered the enterprise. The planned annual profit of an industrial enterprise was broken down into monthly quotas, and 60 to 80 percent of the planned profit for a given month was forwarded to the government on the 25th of that month. The balance was submitted on the 8th of the following month, with adjustments made where necessary to the actual amount of profit earned. State

trading units did not operate on this planned profit basis but contributed their actual monthly profits to the treasury on the 15th of the following month.

The responsibility for checking profit contributions from state enterprises was delegated to the tax collection offices. Although the tax offices did not actually receive profit contributions, they exercised this watchdog function over profits because, it is said, this procedure (1) lifted the burden of local government units for such checking, (2) consolidated the supervision of the collection of taxes and profits in one organization, and (3) prepared the tax offices to be eventually the original repository of both taxes and profits. 55/

## 2. Depreciation Reserves

The Chinese Communists handled reserves for depreciation in a manner different from the Soviet regime. Depreciation reserves of an enterprise in the USSR were deposited in special bank accounts, and they were used by the enterprise to offset investment expenditures according to distributions made by the supervising agency. In China, reserves for depreciation were paid into the central treasury and were treated as budgetary income. Appropriations were made from the expenditures side of the budget for capital investment, including all additions to fixed assets -- both for replacements and for other purposes. Some Chinese writers said that this procedure was not efficient and that it complicated the flow of funds in both directions. The Ministry of Finance, however, maintained that in the absence of special banking facilities in the early 1950's to handle depreciation reserves, it was necessary to supervise the reserve funds through the budget. Special banks came into existence only after the Communists had been in power in China for several years. Although it was recommended as early as 1956 that depreciation reserves should bypass the budget and be handled directly by the banks, no action apparently was taken to effect the change.

Monthly depreciation charges were remitted to the treasury (or to the government department that supervised the enterprise) on the 15th of the following month. The actual amount of the depreciation charge was determined by the enterprise according to recommended amortization schedules. A separate charge for major repairs of capital assets was handled by the enterprise itself in a special bank account that did not go through the budget.

Depreciation reserves over the past 10 years far exceeded the outward flow of budget expenditures for the replacement of fixed assets actually scrapped. A great deal of the modern industry of Communist China was put in place during 1952-59. Much of this industrial

equipment was still relatively new, and the Chinese system tended to continue the use of older equipment that in Western countries would be considered obsolescent. For these reasons, replacement expenditures were small. As a proportion of total budgetary income, depreciation reserves increased from about 5.6 percent in 1952 to about 7.3 percent in 1959 and represented more than 6 percent of budgetary revenue over the entire period. With replacement expenditures relatively low during these years, most of these funds were available for allocation as the state investment plan dictated. As long as rates of depreciation are relatively consistent from year to year and as long as net investment is positive, depreciation reserves will continue to serve as an important source of funds for state investment rather than as a commitment from the budget to remit funds to the specific enterprises making depreciation payments.

### 3. Other Budget Revenue from State Enterprises

Compared with profits and depreciation reserves, other budget revenue from state operations in Communist China was unimportant. This other revenue consisted of three elements.

#### a. "Return of Surplus Working Capital"

This revenue probably was small and conceivably may have been negative in some years. Each enterprise returned any surplus working capital to the government department to which it was subordinate, and this department in turn distributed the surplus to meet the deficits in working capital of other enterprises under its control. Only after this balancing had taken place was any net surplus of working capital returned to the treasury.

#### b. "Receipts from the Sale of Fixed Assets"

This revenue arose from the disposition by industrial enterprises of fully depreciated or other dispensable assets. In view of the relatively recent expansion of Chinese industry, a great deal of the industrial equipment was not yet fully amortized or obsolete, and budgetary revenue from this source probably was negligible.

#### c. "Income from Other Business Activities"

This revenue consisted of sales proceeds from experimental products of research agencies, the income of broadcasting and news services (likely to be insignificant in view of the complete absence of advertising revenues), and the income of surveying and planning activities.

### C. Other Budget Revenue

Miscellaneous sources of government income in Communist China were relatively unimportant and declined as a proportion of the total revenue during the past 10 years. Sources of income other than taxes and receipts from state enterprises represented 11.5 percent of the total budgetary revenue in 1950 but only 2.7 percent in 1958 and 0.6 percent in 1959. These other sources of revenue consisted of loans from abroad, domestic bond sales to the public, earnings of government insurance operations, and miscellaneous items such as fines, administrative and service fees, and supplementary income from various public projects.

#### 1. Domestic Bonds

The Chinese Communists had six national domestic bond issues during 1950-58, providing revenue of 3,762 million yuan (about 1.8 percent of the total budgetary income during that period). The first of these was the Peoples Victory Bond of 1950. From 1954 through 1957, National Economic Construction Bonds were issued each year in the planned amounts of 600 million yuan annually. The planned amount of National Economic Construction Bonds for 1958 was 625 million yuan. All of these issues, except that of 1950, were oversubscribed. Beginning in 1959, national bonds were discontinued, and local governments were authorized for the first time to issue local government bonds. The distribution of bonds among various sections of the population is shown in Table 11.\* 56/

The largest amounts of bonds were sold to people with the largest cash incomes -- wage earners and private businessmen. These two groups, representing 5 percent of the total Chinese population, bought 68 percent of the bonds sold during 1950-57. The share of private businessmen in the total bond sales declined from 71 percent in 1950 to only 12.5 percent in 1957. During this period, private industry and commerce were almost completely absorbed by the state. The large increase in the number of state employees resulted in a rise in their share of actual bond sales from 11.5 percent of the total in 1950 to 40 percent in 1957. State employees apparently exceeded their quotas in nearly every year. Sales to the agricultural sector increased from 1950 to 1954 almost sevenfold, probably an adjustment from a low initial share, but then remained almost unchanged through 1956. The peasants failed to meet their annual quotas in 3 out of 4 years. The Chinese stated that sales to state employees in 1955 represented slightly more than 7 yuan per capita, whereas sales to the peasants, largely a nonmonetary sector of the economy, were only about one-half yuan per capita.

\* Table 11 follows on p. 41.

Table 11

Communist China: Distribution of Domestic Bonds  
1950-58

	Million Current Yuan									
	1950 Actual Sales	1954		1955		1956		1957		1958 Actual Sales
		Planned Sales	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	Planned Sales	Actual Sales	
Private industry and commerce <u>a/</u>	184	320	394	270	244	140	139	75	81	N.A.
Peasants <u>b/</u>	18	180	140	180	135	190	138	200	217	320
State employees <u>c/</u>	30		246		195	230	244	280	260	N.A.
All others <u>d/</u>	28	<100	56	<150	45	40	86	45	92	N.A.
Total	<u>260</u>	<u>600</u>	<u>836</u>	<u>600</u>	<u>619</u>	<u>600</u>	<u>607</u>	<u>600</u>	<u>650</u>	<u>790</u>

a. After 1955, when nearly all industry and commerce had become socialized, this category represented former private businessmen receiving "fixed dividends" on the assets that they had contributed to joint state-private enterprises plus some 3 million small traders and peddlers throughout the country.

b. This category represents the rural (farm) areas.

c. The category "state employees" includes industrial and commercial workers employed by state enterprises and working personnel of government administrative organs and cultural and educational agencies.

d. The category "all others" includes the armed forces and the urban population not otherwise accounted for.



The Peoples Victory Bond in 1950 provided 4 percent of the budgetary revenue in that year. The bonds were normally scheduled to mature in 5 years, but a drawing for partial redemption was held each year after issue except the last. The last payments on these bonds were to begin on 31 March 1955, with the redemption privilege to expire 6 months later. Two extensions of this deadline were necessary, however, which extended the redemption period from 6 to 14 months. The official announcements said that these extensions were required because the Chinese people were unaccustomed to holding bonds and were not aware that they must be redeemed within a fixed period. Furthermore, the remoteness of some bondholders from banks where the bonds could be cashed made redemption difficult. 57/ These statements imply that the Communists achieved a relatively wide distribution with their first bond issue. In view of the traditional Chinese distrust of paper claims to wealth, it is probable that at least some of the 1950 bonds were purchased under duress. The 1950 bond issue, unlike all succeeding issues, probably was undersubscribed.

The National Economic Construction Bonds issued each year from 1954 through 1958 are nearly identical in their terms. They all carried a 10-year normal maturity, except the 1954 series, which was for 8 years. The bonds were issued in denominations of 1, 2, 5, 10, 50, and 100 yuan. They carried interest at the rate of 4 percent payable once a year, usually on 30 September. Interest coupons attached to the bonds were redeemable on the specified date at all branches of the state bank.

The bond issues during 1954-58 provided for redemption based on a lottery-type drawing. The 1957 series, for example, was to be repaid by 10 annual drawings. On each of the first, second, third, and fourth drawings, 5 percent of the total outstanding bonds was to be repaid; on each of the fifth, sixth, and seventh drawings, 10 percent of the total was to be repaid; on each of the eighth and ninth drawings, 15 percent was to be repaid; and in the tenth year the remaining 20 percent was to be repaid. Each annual drawing normally was made in August, and the last two digits of a bond's serial number had to correspond with the drawn numbers in order to make the bond eligible for redemption. The bonds were redeemable in the last quarter of the year, and if they were not cashed at that time, they could be turned in during the redemption period of the following year. 58/

The Chinese Communists gave no reason for dropping National Economic Construction Bonds in 1959. The receipts from bond sales in 1958 represented less than 2 percent of the total budgetary income, and the regime may have decided that the relatively low return did not justify the administrative effort involved in issuing these complicated, small-denomination bonds, which required an extensive sales campaign,

arrangements for installment payments, annual interest payments, and annual redemptions of principal. These administrative details multiplied with each successive issue. In 1958, for example, the authorities not only had to conduct the subscription and payment drives for that year's issue but also were required to make interest payments and principal redemptions (many of them very small) on the bond issues of 1954, 1955, 1956, and 1957.

The decision to permit local governments to issue shorter term local government bonds in place of the national bonds may have been part of the general movement in 1958 to delegate more economic and administrative authority to the provinces. Most of the provinces, however, decided not to issue bonds in 1959. A typical provincial bond in 1959 was the one issued by Anhwei Province, carrying simple interest of 1 percent per year and maturing in 5 years. Although the planned amount of this bond issue was 67 million yuan, only 25,280,000 yuan of the issue was sold. The planned bond issue in Anhwei Province for 1961 was only 29,200,000 yuan. 59/

## 2. Loans from Abroad

The Chinese Communists received a total of 5,294 million yuan in loans from the USSR during 1950-59. About one-third of this total was in the form of economic assistance. The remainder was not specifically identified but probably was for military assistance.

The USSR extended a credit valued at \$300 million to Communist China in 1950 at an interest rate of 1 percent. This loan was to be used over a 5-year period ending in 1954, with repayments in 10 equal installments beginning no later than 31 December 1954. Although the Chinese stated that this loan was to be made available in cash, apparently it was used for the most part to purchase industrial equipment and materials from the USSR. A second loan of 520 million rubles (about \$130 million) for the purchase of economic goods was made by the USSR to China in 1954. These two loans were widely publicized in the Chinese press as economic credits. All other loans from the USSR, most of which have not been clearly identified, were reported in terms of yuan and usually were announced only as part of the budgetary receipts of the government.

The annual receipts of credit from the USSR and their relative importance in the Chinese budget are indicated in Table 12.\* 60/

Credits from the USSR apparently were exhausted in 1957, for budgets for subsequent years do not indicate any receipts from this

\* Table 12 follows on p. 44.

Table 12

Communist China: Receipts of Credit from the USSR  
1950-57

<u>Year</u>	<u>Receipts of Credit (Million Current Yuan)</u>	<u>Receipts of Credit as a Percentage of Total Budgetary Revenue</u>
1950	244	3.7
1951	625	4.8
1952	1,305	7.4
Total, 1950-52	<u>2,174 a/</u>	
1953	438	2.0
1954	884	3.4
1955	1,657	6.1
1956	117.4	0.4
1957	23.2	0.1
Total, 1953-57	<u>3,120</u>	
Total, 1950-57	<u>5,294</u>	

a. The Chinese Communists reported that the total amount of loans received from the USSR was 2,174 million yuan for 1950-52; the allocations in this table by individual years for this period are estimated from budget figures. The Chinese reported the amount of loans from the USSR in each year for 1953-57.

source. It was logical for the Chinese Communists to carry these foreign credits as regular budgetary receipts. The expenditure of these sums, whether for economic construction or military purposes, was confined entirely to the state sector of the economy and was directly related to budgetary appropriations for specific purposes.

3. Income from Insurance Operations\*

The Communists have brought all insurance activities in China under state control. Compulsory insurance has been enforced by the National Peoples Insurance Corporation on all state-operated enterprises, on cooperatives, and on passengers and communications. In both

\* 61/

rural and urban areas, various types of voluntary insurance have been promoted, such as life and personal accident insurance and crop and fire insurance. In more recent years, efforts have been made to expand insurance coverage in rural areas.

The premiums contributed to the so-called "national insurance fund" (apparently administered by the National Peoples Insurance Corporation) are reported to be based on actuarial principles. In addition to the primary function of indemnity against loss, however, the Chinese have said that insurance premiums also are used for the following purposes: (a) to help finance projects that will prevent accidents or loss, (b) to supplement the government budget in the form of periodic contributions, and (c) to contribute to loanable funds of the state banking system.

The nature of contributions by the insurance system to the budget is not clear. Budget revenue may simply be the total income from premiums after payments of claims, although in this case insurance would not add to the loanable funds of the State Bank as indicated above. Budget revenue, on the other hand, may consist of the profits of state insurance companies, although profits of state enterprises normally are contributed to the budget under the revenue category "Income from State-Operated Enterprises and Operations." The most likely possibility is that in any one year some part of insurance reserves is considered in excess of the reserve required on normal actuarial principles and that this amount is remitted as budget income.

Insurance contributions to the government can be estimated only as a residual because no direct figures are available. The budget revenue category "Credit Loans and Insurance" is known to include receipts from foreign loans and domestic bond sales as well as insurance contributions. Insurance contributions are estimated in Table 13\* as a residual after deducting from this revenue account income from "domestic bonds" and "foreign credits."

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\* Table 13 follows on p. 46.

Table 13

Communist China: Estimated Budgetary Receipts from State Insurance Operations  
1953-58

	Million Current Yuan					
	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Income from credit loans and insurance	490	1,790	2,360	724	700	800
Less income from foreign credits	438	884	1,657	117	23	0
	<u>52</u>	<u>906</u>	<u>703</u>	<u>607</u>	<u>677</u>	<u>800</u>
Less income from domestic bonds	0	836	619	607	650	790
Residual (primarily insurance receipts)	<u>52</u>	<u>70</u>	<u>84</u>	<u>0</u>	<u>27</u>	<u>10</u>

### III. Tax Burden

Available evidence on taxes and income in Communist China indicates that money taxes on consumer expenditures were about one-third of consumer money income and about one-fourth of the total consumer income in 1958-59. In relation to the very low per capita income in China, the proportion of income going to taxes is extremely high. This quantitative measure of the tax burden must be modified, however, by other factors that may increase or reduce its impact on the taxpayer. Actual conditions in China make the final impact of taxes lighter than statistical evidence alone would indicate. For example, the real impact of a high proportion of taxes in China was minimized during 1950-59 by gradual increases in real income, and the psychological impact was lessened by building the tax system largely around indirect, rather than direct, taxes. Furthermore, taxes were only one of the control mechanisms used by the Communists to restrict the real income and expenditures of the consumer. The average Chinese taxpayer probably was as much concerned about wages and prices, both directly controlled by the state, as he was about tax burdens.

Major difficulties are encountered in estimating the tax burden in Communist China. First, gaps in the data on Chinese taxes make it necessary to estimate by indirect methods the magnitude of several taxes, and this procedure affects the precision of the statistical measure of the tax burden. Second, the difficulties encountered in evaluating the final impact of taxes in any country -- such as evaluating the relative burdens among different groups of the population, assessing the social costs of an increasing tax burden, and allowing for the psychological impact of taxes -- appear to be even more formidable in the case of China. The historical attitude toward taxes is greatly different in China from that in the West; the Chinese people under the present regime are unable to offer effective opposition or even comment in public on the tax load; and the regime is attempting to justify the current personal sacrifices (including the tax load) with the promise that these sacrifices will make China a great industrial nation. These nonmonetary or psychological factors bearing on the impact of taxes cannot be adequately measured, but their influence should be noted as a broad qualification to the estimated burden of taxes.

#### A. Statistical Evidence of the Tax Burden

In a rapidly developing country with a very low per capita income such as Communist China, nearly every yuan spent for industrial investment is a yuan that cannot be spent for basic consumption needs.

All resources allocated to heavy industry leave unsatisfied, at least for the present, the improvements in living standards sought by all underdeveloped countries, such as a more adequate diet, clothing, and shelter. In this sense, in the absence of external financing, the entire burden of industrialization falls ultimately on the household consumer. In 1959, China devoted nearly one-third of its GNP to investment, a proportion that indicates in a general way the sacrifice required of a population whose per capita GNP in 1959 was only 226 yuan (about \$92 at the official rate of exchange). A more direct and definitive measure of the tax burden, however, is limited to the consumer sector of the economy and in particular to economic activities using money as the medium of exchange. For this purpose, the following two time series may be derived: (1) consumer money income and (2) consumer money taxes. The average rate of taxation -- the ratio of (2) to (1) -- is a quantitative measure of the burden of money taxation. The total money taxes also are compared with the total consumer money income to give further indication of the trend of money taxes.

#### 1. Average Money Tax Rate

In computing the burden of money taxes in Communist China, it was necessary to estimate both consumer money income and consumer money taxes. The former could be derived either through the income side or through the expenditure side of the consumer money sector. The data for consumer expenditures that were adequate for this purpose covered a longer time span than those for consumer income. The largest item of consumer expenditures is retail sales, constituting 85 percent or more of the estimated total money expenditures each year, and figures for retail sales to consumers are readily available for the entire period 1950-59. In Table 14,\* consumer money income is estimated from data on retail sales, bond purchases, union dues, increments in personal bank deposits, and direct taxes. Figures for the total money taxes were derived from official sources and represented about three-fourths of the total government revenues. In analyzing the tax burden, the profits remitted to the treasury by state enterprises were considered to be taxes. State enterprises in China were not subject to a tax as such on their net operating income, but the profits that they forwarded to the treasury according to a monthly plan represented a form of tax on net income.\*\* The items of budgetary revenue that were excluded from money

\* Table 14 follows on p. 49.

\*\* Profits of state enterprises were relatively high in Communist China compared with the USSR because the Chinese priced the products of heavy industry higher (relative to other goods) than did the Soviet government. The large absolute profits of state enterprises in China represented very high returns to capital, but this high rate of return was a direct result of the Chinese policy of high industrial prices. These profits also might have been considered as a capital footnote continued on p. 50

Table 14

Communist China: Estimated Consumer Money Income a/  
1950-59

	Million Current Yuan									
Allocations of Consumer Money Income	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Adjusted retail trade	16,360	22,030	25,280	30,150	33,310	35,620	42,400	44,720	51,800	60,300
Purchase of consumer services	1,895	2,550	2,605	3,100	3,690	3,995	4,550	5,045	5,535	6,444
Purchase of government bonds	260	0	0	0	836	619	607	650	790	40
Trade union dues	28	57	70	91	98	102	148	156	192	195
Increments in personal bank deposits	122	412	299	364	198	287	542	557	2,300	3,630
Direct taxes on consumers	281	467	510	601	538	465	467	377	426	430
<b>Total</b>	<b>18,946</b>	<b>25,516</b>	<b>28,764</b>	<b>34,306</b>	<b>38,670</b>	<b>41,088</b>	<b>48,714</b>	<b>51,505</b>	<b>61,043</b>	<b>71,039</b>

a. For sources and methodology, see Appendix A.



taxes in Table 15\* are depreciation allowances and other nonprofit remittances of state enterprises, receipts from foreign loans, receipts from state insurance operations, receipts from the sale of domestic bonds, agricultural taxes paid in kind rather than in cash, and miscellaneous receipts such as income from public property and various special sales.

The proportion of total money taxes borne by household consumers had to be estimated from the limited data given by the Chinese Communists. Some levies, such as the salt tax, fell almost entirely on the consumer. Other levies, such as customs duties, are borne only in part by the consumer. Only approximate estimates could be made of the proportions of commodity taxes and of profits taxes that were shifted forward to become part of retail prices of consumer goods or of the proportion of profits taxes that was shifted backward to consumers in the form of lower wage payments and lower farm income.

The procedure for estimating consumer money taxes was to attribute to the consumer tax load none of the profit remittances of heavy industry, three-fourths of those from light industry, and one-half of profits from foreign trade and rail transportation. Profits of heavy industry and of light industry each contributed about 35 percent of the total profits of state enterprises, and foreign trade and transportation contributed the remaining 30 percent. Commodity taxes borne by consumers were estimated separately for the retail and for the manufacturing and wholesale levels. Estimates of consumer money taxes are shown in Table 16.\*\*

The average rates of money taxation in Communist China, derived from data in Tables 14,\*\*\* 15, and 16, are shown in Table 17.† Series 1, which gives the total money taxes as a percentage of consumer money income, does not measure the burden of money taxes on consumers, because it includes taxes not paid by consumers. This series does

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transfer to the central treasury or as business savings (although these funds differed from the usual concept of business savings in that no dividends were paid and individuals had no claim on the future earnings of state enterprises). For the purposes of this report, profits of state enterprises were treated as a tax because they had to be remitted to the central treasury according to specific regulations and because the funds were entered into the revenue side of the government budget and were concurrently allocated through the expenditure side of the budget.

\* Table 15 follows on p. 51.

\*\* Table 16 follows on p. 52.

\*\*\* P. 49, above.

† Table 17 follows on p. 53.

Table 15

Communist China: Total Money Taxes  
1950-59

Money Taxes	Million Current Yuan									
	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Salt taxes	268	339	405	461	521	481	483	620	620	650
Customs receipts	356	693	481	505	412	466	542	460	580	650
Direct taxes on consumers	281	467	510	601	538	465	467	377	426	430
Industrial and commercial taxes	2,363	4,745	6,147	8,250	8,972	8,725	10,098	11,300	14,179	15,698
Profits of state enterprises	770	2,690	4,653	6,369	8,457	9,404	11,414	11,363	18,719	28,590
Total	<u>4,038</u>	<u>8,934</u>	<u>12,196</u>	<u>16,186</u>	<u>18,900</u>	<u>19,541</u>	<u>23,004</u>	<u>24,120</u>	<u>34,524</u>	<u>46,018</u>

Table 16

Communist China: Estimated Consumer Money Taxes a/  
1950-59

	Million Current Yuan									
<u>Consumer Money Taxes</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Direct taxes on consumers	281	467	510	601	538	465	467	377	426	430
Salt taxes	268	339	405	461	521	481	483	620	620	650
Customs receipts (adjusted)	178	347	241	253	206	233	271	230	290	325
Retail commodity taxes	982	1,322	1,155	1,412	1,695	1,811	2,168	2,478	2,927	3,618
Retail profit taxes	242	388	708	944	1,579	1,590	2,264	2,346	3,057	4,824
Industrial commodity taxes <u>b/</u>	947	2,488	3,671	5,070	5,400	5,193	5,711	6,359	7,689	8,533
Industrial profit taxes <u>b/</u>	402	905	1,433	1,913	2,244	2,564	3,072	3,057	3,983	5,428
<b>Total</b>	<b><u>3,300</u></b>	<b><u>6,256</u></b>	<b><u>8,123</u></b>	<b><u>10,654</u></b>	<b><u>12,183</u></b>	<b><u>12,337</u></b>	<b><u>14,436</u></b>	<b><u>15,467</u></b>	<b><u>18,992</u></b>	<b><u>23,808</u></b>

a. For sources and methodology, see Appendix A.

b. Including transportation and foreign trade.

Table 17

Communist China: Average Rate of Money Taxation  
1950-59

Percent of Consumer Money Income

<u>Year</u>	<u>Total Money Taxes (Series 1)</u>	<u>Consumer Money Taxes (Series 2)</u>
1950	21.3	17.4
1951	35.0	24.5
1952	42.4	28.2
1953	47.2	31.1
1954	48.9	31.5
1955	47.6	30.0
1956	47.2	29.6
1957	46.8	30.0
1958	56.6	31.1
1959	64.8	33.5

provide, however, an indication of the trend of the total money taxes collected in Communist China. Series 2 represents money taxes paid directly or indirectly by consumers as a percent of consumer money income and is therefore an estimate of the budget "burden" on household consumers in China. These percentages represent a minimum estimate of the money tax burden because they do not include the possible effects of shifting (a) profits of heavy industry backward in the form of lower money wages and (b) profits of the state procurement network backward in the form of lower farm procurement prices.

In spite of the limitations of the data on taxes and income in Communist China during the period, several conclusions may be drawn from Table 17. Consumer money taxes as a percent of consumer money income increased sharply from 1950 to 1953 -- from 17.4 to 31.1 percent (Series 2, Table 17). Although consumer money income increased during 1950-53, consumer money taxes increased much faster, representing a relative increase in the burden on consumer expenditures as the Communist regime consolidated its control over China and prepared for the industrialization drive of the First Five Year Plan (1953-57). After 1953, money taxes represented from one-fourth to one-third of consumer money income each year.

The ratio of the total money taxes (Series 1, Table 17) to consumer money income also increased during 1950-54. From 1955 through 1957, this ratio declined each year, indicating a higher rate of growth

in consumer money income than in the total money taxes in this period. The ratio in Series 2 increased in 1957, however, implying that consumer money taxes increased more rapidly than both consumer money income and total money taxes.

Consumer money income and taxes also may be related by comparing changes in their respective magnitudes from year to year. Annual changes in consumer money taxes and in consumer money income (before and after taxes and corrected for changes in population and in retail prices) are shown in Table 18.\*

The figures in Table 18 illustrate the higher rate of increase in consumer money taxes than in consumer money income in Communist China during most of the period 1950-59. In each of the years 1950-54, income after taxes increased less than income before taxes, because money taxes each year increased more than money income. This pattern was repeated in the period 1957-59. Personal taxes may be expected to increase faster than personal income when a tax structure is progressive. The tax structure in China for most of this period, however, probably was proportional or mildly regressive and would not have caused the proportionately larger increase in taxes than in income. Money taxes, therefore, probably increased faster than money income for reasons such as the following: (a) the inclusion of more taxable items in consumer expenditures (some consumer goods were taxed for the first time in various years during 1950-59); (b) large increases in the annual profits tax of state enterprises, with a substantial though declining proportion of this profits tax passed on to consumers; (c) a shift in consumer purchases to higher taxed goods such as from food to textiles and from necessities to tobacco and semiluxuries, concomitant with the increase in consumer income; and (d) increases in commodity tax rates on consumer goods (the tax rates available for this period indicated only minor increases).

The last column in Table 18 indicates that consumer money income per capita (after taxes and corrected for changes in retail prices) increased in every year except 1957. A part of the annual additions to consumer money income during 1950-59 was accounted for by the shift in large numbers of people from rural areas (where per capita money income was relatively low) to the urban labor force (where per capita money income was higher). This factor may account for about one-third of the increase in consumer money income (in current prices) that occurred from 1953 to 1959.

\* Table 18 follows on p. 55.

Table 18

Communist China: Indexes of Consumer Money Income and Taxes a/  
1951-59

	Previous Year = 100				
	(1)	(2)	(3)	(4)	(5)
Year	Consumer Money Income Before Taxes	Consumer Money Taxes	Consumer Money Income After Taxes	Consumer Money Income After Taxes Corrected for Price Changes	Per Capita Money Income After Taxes Corrected for Price Changes
1951	134.7	189.6	123.1		
1952	112.7	129.8	107.2	107.3	105.2
1953	119.3	131.2	114.6	110.1	107.4
1954	112.7	114.4	112.0	108.9	106.7
1955	106.3	101.3	108.5	107.6	105.0
1956	118.6	117.0	119.2	119.2	116.2
1957	105.7	107.1	105.1	102.3	100.0
1958	118.5	122.8	116.7	117.2	114.2
1959	116.4	125.4	112.3	111.9	109.1

a. For sources and methodology, see Appendix A.

Tables 14\* and 16\*\* imply that increases in retail prices during 1951-59 were caused by increases in commodity taxes. These tables also imply that the cost of goods sold at retail (minus all taxes) declined during this period. The pressure of taxes on retail prices may be illustrated by assuming that a rise in the retail price level will occur when consumer tax collections in a given year increase proportionately more than retail sales. The increase in the retail price level should be at least as great as the extra-proportionate increase in commodity taxes collected. Otherwise it may be assumed that the cost of goods sold at retail (minus all taxes) declined sufficiently to absorb the extra increase in taxes. Table 19 is a comparison of (a) the increase in retail prices that should have occurred because tax collections increased proportionately more than retail sales and (b) the annual changes in the retail price index.

Table 19

Communist China: Effect of Tax Increases on Retail Prices a/  
1952-59

<u>Year</u>	<u>Change in Retail Prices Suggested by Change in Tax Collections</u>	<u>Change in Official Retail Price Index</u>
1952	5.2	-0.1
1953	4.6	3.2
1954	2.4	2.2
1955	-2.5	0.8
1956	-0.6	0
1957	1.2	2.2
1958	3.2	-0.3
1959	4.6	0

a. For sources and methodology, see Appendix A.

In 1952 the more-than-proportionate increase in tax collections should have caused retail prices to increase about 5.2 percent, whereas the official price index declined by one-tenth of 1 percent. In 1958, increased taxes implied an increase in retail prices of 3.2 percent, whereas the official index showed a decline of three-tenths of 1 percent. Significant differences between the two indexes in Table 19 also occurred in 1953, 1955, and 1959. In the years

\* P. 49, above.

\*\* P. 52, above.

1953-54, when retail prices increased by more than 2 percent, the extra-proportionate tax collections were sufficient to have been the sole causal factor.

The cumulative increase in extra-proportionate taxes during 1951-59 (column 1 of Table 19) amounted to 18.1 percent, whereas the cumulative increase in retail prices (column 2 of Table 19) was only 8.0 percent. If the value of retail sales had absorbed the increase of 18.1 percent in taxes, it would have been necessary (a) for retail prices to increase by 18.1 percent (considerably more than the 8.0 percent officially reported for retail prices), or (b) for the cost of goods sold at retail to be reduced to absorb the tax increase, or (c) for a combination of (a) and (b) to occur. The data suggest that only part of the extra-proportionate increase in tax collections during 1951-59 was accounted for by the increase in retail prices and that some reduction in the cost of goods sold at retail may have occurred.

## 2. Comparison with Tax Burdens in Other Countries

The monetary measure of the tax burden in Communist China may be compared in a general way with the tax burden in other countries, although the variation in tax burdens among various countries is more complex than a quantitative comparison alone would indicate. Furthermore, even the official data on taxes and income are seldom fully comparable from one country to another. These limitations qualify the direct comparisons in Tables 20 and 21,\* and the figures given in these tables therefore indicate only the approximate relative tax burdens.

If the total government tax collections were related to national income, Communist China in 1950-59 was in a position roughly comparable to industrial nations in the West and considerably above India (and, after 1955, even Japan), as indicated in Table 20.

The figures for Communist China in Table 20, however, should be reduced -- probably by as much as one-third -- to make them comparable with figures for the other countries. About three-fourths of Chinese gross domestic investment in 1959 was channeled through the government budget, whereas in the other countries a much smaller portion of the total domestic investment was reflected in government accounts. A better international comparison of the tax burden may be derived by comparing consumer money taxes and consumer money income. This comparison is made for several countries in Table 21.

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\* Tables 20 and 21 follow on p. 58.



Table 20

Ratio of Government Tax Collections to National Income  
 by Selected Countries  
 1950 and 1955-59

Year	Percent						
	Communist China	Japan	India	UK	West Germany	France	US
1950	15.2	22.4	5.5	38.1	25.3	20.7	27.2
1955	32.2	19.7	5.5	33.3	28.3	21.4	28.7
1956	29.5	20.4	6.6	33.4	28.1	21.9	29.2
1957	29.7	21.2	6.8	32.5	27.1	23.5	27.6
1958	33.4	20.5	8.1	32.7	26.9	24.7	27.5
1959	39.0	19.9	7.7	N.A.	N.A.	N.A.	27.3

Table 21

Communist China, USSR, US: Average Rate of Consumer Money Taxation  
 and Personal Money Income Per Capita a/  
 Selected Years, 1951-59

Year	Communist China		USSR		US	
	Tax Rate (Percent)	Income (US \$)	Tax Rate (Percent)	Income (US \$)	Tax Rate (Percent)	Income (US \$)
1951	24.5	19	53.4	275	29.7	1,560
1952	28.2	21	53.1	280	30.8	1,625
1953	31.1	24	49.3	290	30.4	1,730
1957	30.0	33	N.A.	N.A.	30.9	1,965
1958	31.1	38	N.A.	N.A.	29.7	1,980
1959	33.5	43	N.A.	N.A.	30.3	2,065

a. For sources and methodology, see Appendix A.

Although money taxes as a percent of money income are roughly comparable in Communist China and the US, the differences in per capita money income are so large that the tax "burden" appears to be much greater in China than in the US. This comparison, however, does not take into account such other factors affecting the impact of taxes as (a) nonmonetary income, (b) the structure of taxes, and (c) the composition of public expenditures (see the discussion in B, below). The average rate of the money tax in the USSR in 1951-53 was about 60 percent higher than in China in 1958-59, but the much higher per capita money income in the USSR could support a larger proportion of money taxes.

The average rate of the total money taxes (total money taxes as a percent of consumer money income) followed a pattern in Communist China somewhat similar to that in the USSR. The ratio of the total money taxes to consumer money income was 36 percent in the USSR in 1926 and 35 percent in China in 1951, and these ratios had increased to 72.2 percent in the USSR by 1947 and to 64.8 percent in China by 1959.

#### B. Impact of the Tax Burden

The tax burden, even in Communist China, is a highly subjective matter. Individuals hold their own particular attitudes toward taxes, and generalizations are inadequate to evaluate definitively the personal impact of taxes. For example, in China as elsewhere, different taxes probably have different effects on individual incentives to work and to save, and these effects may be self-canceling with respect to some groups or individuals and cumulative with respect to others. These personal attitudes and reactions can be uncovered only through sample surveys, however, and must be largely ignored in the case of Communist China. This discussion is limited, therefore, to criteria of a more general application, which can be used in evaluating the over-all impact of taxes.

##### 1. Effect of the Structure of Taxes

The psychological impact of taxes depends to a great extent on the form in which they are levied. Indirect taxes often go unnoticed, whereas direct taxes meet strong objections from taxpayers. For example, the levy that becomes a part of commodity price is much less likely to be identified as a tax than the same levy imposed on individual income. A tax structure that concentrates on indirect levies, therefore, is more likely to hide the real burden of taxes than one which relies heavily on direct taxes. The only direct taxes on the consumer in Communist China are the agricultural tax and miscellaneous fees and fines. In 1950 the Chinese depended on indirect levies

for two-fifths of consumer tax payments, and thereafter the proportion of indirect taxes rose nearly every year, until by 1959 they accounted for almost all of the total. The relative positions of direct and indirect taxes paid by Chinese consumers are shown in Table 22.

Table 22

Communist China: Percentage Shares of Direct and Indirect Taxes  
in Total Money Taxes Paid by Consumers  
1950-59

<u>Year</u>	<u>Percent</u>	
	<u>Direct Taxes</u>	<u>Indirect Taxes</u>
1950	60	40
1951	38	62
1952	39	61
1953	30	70
1954	31	69
1955	26	74
1956	21	79
1957	19	81
1958	2	98
1959	1	99

The sharp increase during 1950-53 in indirect taxes (from 40 to 70 percent) coincided with a big rise in the proportion of consumer money income taken by taxes (from 17.4 to 31.1 percent). This emphasis on indirect taxes at a time when money tax collections were greatly increased probably softened the impact of the enlarged tax burden. During this period (1950-53) the Chinese Communist regime was consolidating its economic and political control over the mainland and could most easily administer taxes levied against business enterprises. In addition, it had good reason to hide as much as possible of the very large increase in the consumer tax burden. These considerations probably led to the decision to impose high commodity taxes and to postpone indefinitely the individual income tax (the latter had still not been implemented by 1959 in spite of the fact that it was included in the initial tax program of 1950). With this structure of taxes, the average Chinese worker or peasant probably was not aware that an increasing share of consumer money income was drained off into the central treasury.

## 2. Effect of the Level of Income

The level of personal income greatly influences the impact of a given tax load. An average tax rate of 25 percent may be a severe burden to the members of a subsistence economy but of relatively minor consequence to those of an affluent one. In spite of the approximate equality in average money tax rates for Communist China and the US, the great disparity in real per capita income between the two countries implies a much greater psychological impact for the Chinese than for the US taxpayer.

There is no indication that the impact of the tax burden in Communist China has declined as a result of changes in taxes or income during 1950-59. Personal money income per capita (in real terms) increased only moderately during this period. In view of the small income changes and the already low level of absolute income per capita, the ability of the Chinese to pay taxes probably increased very little. Moreover, money taxes increased at a faster rate than money income or than per capita income (in real terms) in nearly all of these years.

## 3. Effect of Public Expenditures

In evaluating the impact of taxes, particularly where the tax burden is high in relation to personal income, it is essential to consider the composition of public expenditures. If most of the tax revenues are used to benefit the consumer directly -- as, for example, through expenditure on public housing, education, health, and other social services -- the real tax burden will be much less, at least in the short run, than if most of the tax revenues are used to finance foreign aid, defense, research, and long-term investment.

The drive for industrialization in Communist China during 1950-59 largely determined its pattern of expenditures, and budget appropriations for the consumer were relatively small. In each year since 1952 the shares of government expenditure on both economic construction and national defense exceeded those for social services (including education). The absolute expenditures on social services ranged from only 10 to 15 percent of the total, although they provided improvements in health and education. The nature of public expenditures, therefore, appears to have done little to mitigate the impact of a high tax burden in China. The Chinese Communists claimed, however, that in the long run the consumer would reap immense gains from the program of industrialization.

#### 4. Effect of Nonmonetary Income

The tax burden in Communist China has been defined conventionally in this report as the ratio of personal money taxes to personal money income. This measure of the tax burden is reduced somewhat if nonmonetary income is included in personal income. Urban residents in China probably received most of their income in cash, but in 1950-59, 85 percent of the total population lived in rural areas, where a larger share of personal income was received in kind rather than in cash. It is estimated that for rural and urban consumers together, personal money income as a percent of the total personal income was about 52 percent in 1950, 57 percent in 1953, 67 percent in 1957, and 78 percent in 1959. If money taxes paid by consumers were related to their total personal income rather than to personal money income, the tax burden would be reduced from 17 percent to 9 percent for 1950, from 31 percent to 18 percent for 1953, from 30 percent to 20 percent for 1957, and from 34 percent to 26 percent for 1959. Although the tax burden in terms of total rather than money income is considerably smaller for the early 1950's, it was not substantially different in 1959.

#### 5. Factors Peculiar to China

There were some considerations unique in the Chinese environment that affected the attitudes of the people toward taxes. Taken separately, these factors probably had varying influences on different segments and individuals in the population. They cannot be given specific weights in evaluating the impact of taxes, but they suggest that the preoccupation with taxes in Communist China may not be as great as in many Western countries.

a. Heavy taxes in relation to very low per capita incomes were not new in China. The Chinese had long been accustomed to so-called "tax oppression," and regressive taxes and arbitrary rates had been common. The immediate needs of the provincial warlord and the local tax collector invariably took precedence over ability to pay. For example, agricultural taxes were sometimes collected several years in advance, and the amount of taxes paid often reflected the outcome of the perennial argument with the tax collector.

b. There is a possibility that the Chinese were more tolerant of high taxes in 1950-59 than they had been in the past. The industrial gains that China made were highly publicized within the country, and the regime promoted the image of a vigorous "New China" that would be ready to take its place in another generation among the industrial nations of the world. Even though substantial gains in personal consumption might be several decades away, China was now

united for the first time in centuries and was making rapid industrial progress. The Chinese people were particularly susceptible to the pride of this achievement, and in this context the burden of taxes probably was tolerated more readily.

c. The strictures of totalitarian control in Communist China were so heavy that the average Chinese was preoccupied with many burdens more oppressive than taxes. The virtually complete regimentation of the individual and the glorification of physical labor imposed an unprecedented work load on the Chinese people. The tiring physical effort, interspersed with compulsory "ideological discussions," left little energy for personal reflection. Taxes, particularly when they were largely indirect, may have had only a slight influence on the incentives that motivated the individual.

d. For some Chinese the "tax burden" probably was not a clearly defined concept. The illiterate and poorly educated in China may not have been conscious of the tax burden as such, especially when it was hidden in commodity prices. He was perhaps aware of high prices and unsatisfied demands, but this problem may have been no more explicable in terms of a tax burden than in terms of the traditional shortage of goods in China. If this concept was widespread, it was much easier for the regime to permit the rate of taxation to increase faster than the rate of increase in personal income, at least within limits.

#### IV. Evaluation of the Chinese Tax System

The standard economic criteria for evaluating a tax system -- equity, social justice, economic rationality, ease of administration -- are predicated largely on a free market economy and must be modified when applied to a planned economy, like that of Communist China. The allocative functions of a competitive price system are now exercised in China by the state. Although a system of prices is essential in China, the price of each productive resource does not necessarily reflect its relative usefulness and scarcity. Resources do not necessarily seek out the most profitable alternative employment but rather are directed by the state plan according to a system of priorities designed to achieve specific economic objectives. Most physical resources are state property. Large segments of the labor force may be and are moved about at state direction. In evaluating the tax system of China's controlled economy, therefore, it is not possible to give the usual consideration to social justice of specific tax measures or to consider some aspects of equity in taxation or to be as critical of administrative costs. The criterion of economic rationality assumes greater importance, however, particularly the role of the over-all tax structure in promoting economic objectives of the state.

The tax structure of Communist China will be evaluated in this report primarily in terms of how well it supports the economic objectives of the state. Given these state objectives, the following evaluation analyzes the tax system in terms of (1) the equity and social justice of Chinese taxes, (2) the economic rationality of the tax system (from the Chinese point of view), (3) the cost of administering the over-all tax system, and (4) alternative forms of revenue available to the Chinese.

##### A. Equity and Social Justice

Socialization in Communist China upset many of the economic conditions normally assumed in evaluating a tax structure in terms of equity and social justice. For example, in the free-market economies of the West the freedom of individuals to maximize their economic rewards may be modified by progressive taxation that reduces variations in income and wealth, and the tax systems are then evaluated for their degree of social justice. In China, however, the social changes that had occurred by 1958 removed nearly all large variations in wealth and income, satisfied much of the criterion of social justice directly, and greatly reduced the need for progressive taxation. Even the leadership and top managers in China do not have the large income-in-kind

that in the USSR provides many Party officials and plant managers with a much higher standard of living than the average. Furthermore, a specific Chinese tax may discriminate against one group and favor another, but the equity of the tax must be examined in the light of the state objectives for which the tax was designed.

In the context of conditions in Communist China, the criterion of social justice implies that the tax system should not be regressive, and the criterion of equity implies that individuals or households in the same economic position should be given identical treatment for tax purposes (except where state policy specifically requires discrimination).

#### 1. Progressive Nature of the Tax System

The Chinese tax system contains elements of both progression and regression. As a whole, the system probably was more nearly progressive during 1950-57. After 1957 the system probably was either proportional or mildly regressive, but socialization of the economy had eliminated those who could earn incomes much higher than the average. The data are not available, however, to provide a quantitative measure of the progressivity of individual tax measures or of the system as a whole.

##### a. Agricultural Tax

The basic agricultural tax levied on individual farmers in 1950, which remained in effect with little change through 1957, applied progressive rates to most agricultural income. The typical rate structure carried an increase of one percentage point in the tax rate for each addition to per capita income of 70 to 140 pounds of grain. One of the announced objectives of this tax was the redistribution of farm income. Although large landholdings were abolished early by the Communists, the old differences in land and income between poor and middle-class peasants remained for some time. The progressive rates of the agricultural tax probably smoothed out the individual differences in farm income to some extent and gave the tax system in the countryside a strong element of progression from 1950 to 1957.

When the household farm lost its identity during the all-out drive to establish cooperatives in the 1955/56 crop year, there was no longer any need for progressive taxes on agricultural income. Progressive taxes were even less essential in the communes set up in 1958, when peasants became members of large work teams, when they ate in messhalls that dispensed food according to the individual's ration status, and when they were remunerated only partly on



the basis of individual effort. The agricultural tax lost its progressive nature in the tax reform of 1958, when the commune paid the agricultural tax, based on new proportional rates. The only taxes paid by individuals were miscellaneous local fees and the commodity taxes that were included in retail prices. These commodity taxes may have been mildly regressive, in view of the very low cash income of the average peasant. This regression did not imply a violation of the criterion of social justice, however, because individual farm income was then closer to uniformity than at any time in Chinese history, in spite of generally weak attempts to spur production with various incentive systems. After the socialization of agriculture the relatively small differentials that remained in individual farm income (within the collective) probably were disturbed very little by taxes. Incomes of collective units, however, continued to differ widely. Even though the collective paid the agricultural tax on a proportional basis, the authorities introduced a progressive element by (1) varying the tax rate over broad areas, (2) exempting poor units from making contributions to the commune reserve fund,\* and (3) directing state subsidies primarily to poor production units, while at the same time compelling richer ones to finance their own investment projects.

b. Commodity Taxes

The largest single form of tax paid by Chinese consumers -- various commodity and turnover taxes that become part of retail prices -- cannot be characterized either as clearly progressive or as regressive. Commodity taxes in non-Communist countries are generally assumed to be regressive. The extent of regression, however, depends on the distribution of individual income and the structure of the tax. If the variation in personal incomes is small, if individual consumption patterns are somewhat similar, and if necessities are taxed lightly relative to luxuries, a commodity tax system may not be regressive.

The limited data available indicate that variations of personal income in Communist China in 1950-59 were indeed small and that individual expenditure patterns were similar. The Communist regime was successful in its efforts to remove the extremes of wealth and incomes through expropriation. The moderate income variations that existed in 1959 reflected wage and salary differentials, which for the vast majority of the Chinese were not very substantial. These wage differences probably had less impact on China's low absolute level of income than they would have had on a higher level of per capita income. For example, an individual who earned 100 yuan more annually

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\* Before 1958, equivalent contributions were made by cooperatives to the township governments in the form of local surtaxes.

than his neighbor could spend more on necessities but very little more on luxuries. In 1959, all Chinese household consumers continued to be very poor. Until the Chinese per capita income rises clearly above the subsistence level, household consumption patterns are not likely to differ greatly.

The commodity tax rates effective in 1959 in China reduced the regressive effects of this kind of taxation. The rates were in general lower for necessities than for luxuries. For specific commodities, higher quality was taxed more heavily than lower quality. The differential treatment of important consumer goods in the schedule of taxes in effect since mid-1958 is shown in Table 23.\*

For most of these commodities the spread between high and low tax rates resulted in a substantial difference in the final retail price. This difference was particularly evident in the case of such staple items as seafood. Even for a comparative luxury such as cigarettes, there was a tax incentive for low-income smokers to roll their own. Some of the items in Table 23 such as cosmetics, wines, paper, and woolen cloth are rarely purchased by the mass of Chinese, so that tax differentials in these items were not applicable to the majority of consumers. The progression that these tax rates contributed to the over-all tax system cannot be given a quantitative measure. There is a strong presumption, however, that Chinese consumers with sufficient incomes to purchase high-quality and luxury items -- probably a very small minority -- were taxed considerably higher than the average consumer.

Tax rates for a long list of consumer goods also show that most basic food and clothing items were taxed relatively lower than luxury items, but some staple items were taxed as high or higher than some nonessentials. In Table 24,\*\* consumer goods are arranged by commodity tax bracket. Within each bracket, commodities are distributed approximately so that items purchased by low-income groups are at the beginning of each list and so that items purchased by high-income groups are at the end of each list.

In Table 24 a comparison favorable to progression may be made between some basic commodities in the lowest tax range (the first five or six items in the bracket of 0 to 10 percent) and some luxury items in much higher brackets (watches and fancy foods at 30 to 40 percent or cigarettes and cosmetics at 50 to 70 percent). Non-essentials such as carpets and silk cloth, however, also were taxed at only 0 to 10 percent, whereas the staple food item vegetable oils

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\* Table 23 follows on p. 69.

\*\* Table 24 follows on p. 70.

Table 23

Communist China: Tax Rates on Selected Consumer Goods a/  
 for the Period 1958-60

	<u>Tax Rate</u>		<u>Percent</u>
		<u>Tax Rate</u>	
Cotton cloth		Cosmetics	
Printed and dyed	5	Perfumes, rouge, lipstick,	
Unbleached	1.5	nail polish, face cream	51
Woolen cloth		Talcum powder	30
Of imported wool	35	Prickly heat powder	15
Of domestic wool	15	Paper	
Seafood		Special paper	20
Beche-de-mer, fins,		Ordinary paper	10
conpoy, abalone	35	Cigarettes	
Ordinary seafood	5	Grade A	69
Sugar		Grade B	66
Machine-made	44	Grade C	63
Native sugar	39	Grade D	60
Candy and cakes	27	Grade E	40
Blankets		Cigarette paper	18
Woolen	15	Native tobacco	40
Cotton	6	Wines made of grain	
		White or yellow wine	60
		Native sweet wine	40

a. These tax rates are levied on the base prices of the manufacturer or the processor, and the tax then becomes part of the retail price of the commodity. Tax rates in this table are a partial breakdown of the general tax structure shown in Table 7 (p. 28, above).

Table 24

Communist China: Commodity Tax Rates on Selected Consumer Goods  
for the Period 1958-60

<u>0 to 10 Percent</u>	<u>20 to 30 Percent</u>
Grain	Cotton yarn
Wheat flour	Matches
Cotton cloth	Fruit wines
Seafood (plain)	Flavoring essence
Egg products	Fruit juice
Cotton blankets	Candy and cakes
Canned foods	Clocks
Books and magazines	Electric fans
Ordinary paper	Cameras
Pencils	
Ink	
Silk cloth	<u>30 to 40 Percent</u>
Powdered milk	
Carpets	Native sugar
Tooth powder	Tea
	Cut tobacco
<u>10 to 20 Percent</u>	Cigarettes (lowest grade)
Vegetable oils	Beer
Earthen ware	Watches
Wines made of substitutes	Food luxuries
Rubber products	
Cigarette paper	<u>40 to 50 Percent</u>
Soap	Flue-cured tobacco
Enamel ware	Machine-made sugar
Glassware	Saccharine
Aluminum ware	
Leather goods	
Tooth paste	<u>50 to 60 Percent</u>
Linen cloth	
Woolen cloth and blankets	Cigarettes (medium-grade)
Bicycles	Cigars
Radio receiving sets	Cosmetics
Phonograph records	Items such as incense and spirit money
<u>60 to 70 Percent</u>	
Cigarettes (highest grade)	

was taxed at 10 to 20 percent and tea and native sugar at 30 to 40 percent. Some items that were out of the average consumer's price range carried relatively low tax rates, such as radios and records at 10 to 20 percent and cameras and electric fans at 20 to 30 percent. Other luxuries, such as cigarettes and cosmetics, carried the highest tax rates.

In addition to the commodity tax rates shown in Table 24, all consumer goods were subject to a 3-percent retail sales tax. This levy had the effect of narrowing the spread in effective tax rates between low-income purchasers of low-taxed commodities and high-income purchasers of high-taxed commodities.

c. Taxes on Private Business

The taxes levied on private businessmen during 1950-57 included a progressive income tax and a series of excise taxes designed to be discriminatory. The objective was to limit the profitability of private business and gradually to force it into joint ownership with the state. Although this group of taxes touched only a small part of the population, it was clearly progressive in effect.

d. State Enterprise Profits

The large profits remitted to the treasury by state enterprises during 1950-59 were shifted forward in many cases to the prices of finished products. There is no evidence, however, to indicate which consumer commodities were most profitable or whether the highest profits were made on necessities or on luxuries. For example, the food-processing industry was reported to be relatively profitable, but it is not known how much of the profits can be attributed to the processing of specialty items and how much to staple foods. This absence of detailed information on the profits of state enterprise precludes an evaluation of their progressiveness in the form of final commodity prices.

e. Summary of Tax Progressivity

When commodity and retail taxes are taken alone as a class, there is little support for a thesis of progression in the tax system of Communist China. Commodity taxes appear to be neither highly progressive nor highly regressive and may be approximately proportional. On the other hand, during the first 7 or 8 years of the Communist regime, the agricultural tax and the taxes on private business gave some progressivity to the Chinese system. If commodity

taxes during this time were approximately neutral, the over-all structure probably was somewhat progressive. If commodity taxes were slightly regressive, the over-all system probably was proportional. After 1957, when the individual farmers no longer paid the agricultural tax and private businessmen ceased to operate, only the commodity taxes and a few minor direct taxes remained. The system had then lost its identifiable elements of progression. At the same time, the need for sharp progression had been removed by greatly reducing the spread between individual incomes before tax. Under these circumstances a proportional system would meet reasonably well the criterion of social justice, whereas a mild degree of regression would be less objectionable than in most Asian countries, where large income differences persist.

## 2. Equitable Treatment of Taxpayers

Individuals or households in the same economic situation, measured by such standards as income and dependents, should be treated identically for tax purposes. This general standard of equity is compromised in the Chinese tax system only in cases where discriminatory taxes were deliberately imposed to further state policy objectives. Two instances of such deliberate tax discrimination may be recognized in the Chinese system, both of which can be explained in terms of specific state policy toward private enterprises.

### a. Taxes on Private Enterprise

When the Communists assumed control of all China in 1949, nearly half the value of industrial production and more than three-fourths of the wholesale and retail trade was in private hands. During the 4 or 5 years required to socialize this private sector, the Communists levied taxes that favored those business operations that they wished to encourage. Very low rates of the gross receipts tax and generous deductions from the net income tax were granted to producers of essential items, such as iron and steel, basic chemicals, and certain machinery. Nonessential consumer goods, on the other hand, were heavily taxed. These tax differentials were intended to reinforce the system of priorities that had been established for the industrial development of China, and any inequities that occurred among individual taxpayers were only incidental byproducts of this objective.

In the second instance of discrimination, the regime singled out private businessmen as a class and treated them more severely than various types of socialized industry and commerce. For example, only private business was subject to a net income tax. Intermediate production processes were subject to taxes similar to those on end products, and a wide range of state price controls made it

difficult for private businessmen to shift taxes to the consumer. By contrast, cooperative forms of organization were often granted complete tax exemption for several years, and state enterprises had access to subsidies when necessary. The inequities in this situation were obvious to the regime, but they simply reflected the clearly defined policy of the Communists toward private enterprise. The normal criterion of equity simply does not apply, therefore, to these cases of tax discrimination in industry and commerce.

b. Agricultural Tax

The basic agricultural tax, applied against the gross income of farm households, contained several inequities. Although it made allowance for the number of dependents in a household, it ignored variations in costs. Two households with equal gross income and the same number of dependents paid an identical tax, even though costs on one farm may have been double those on the other. There was no explicit rationale for this violation of equity, and it probably was the result of the intention of the regime to keep the agricultural tax as simple as possible. An attempt to make adjustments on the basis of costs would have greatly complicated the tax, and such an attempt might have made administration of the tax extremely difficult among a group of taxpayers with a high degree of illiteracy and little ability to keep records.

A second inequity arose in the agricultural tax because of the "set yield" that was used as the tax base. The tax rates were applied against the normal yield of each farm rather than the actual gross returns each year. With the tax payment more or less constant over several years and the crop yield subject to fluctuation, the effective tax rate varied. Tax relief was granted only if an individual farm was part of an area officially declared to have suffered from "natural calamities,"\* a procedure that put the burden of annual variations in yield on the individual farm household, causing inequities among broad farm areas as well as between rural and urban taxpayers.

The tax changes of 1958 shifted both of these inequities in the agricultural tax from the individual household to the farm cooperative, or, later, to the commune, because the productive unit then became the taxpaying unit. These inequities in the agricultural tax were by 1959 reflected on the individual only to the extent that a high-cost production brigade\*\* or a below-norm yield left a smaller

\* See II, A, a, (1), p. 13, above.

\*\* The production brigade, which was the subordinate unit under the commune, was the accounting unit in Chinese agriculture as a result of the shift of functions from the commune to lower units.

net product to distribute to brigade members. Even this effect was mitigated, however, by allowing local authorities to vary the tax rates over comparatively small areas to account for some of the differences in costs and annual yields. Probably neither of these inequities in the agricultural tax could have been corrected during 1950-57 without a heavy investment in administrative effort. These inequities had been greatly reduced at the commune level by 1959 compared with the situation in 1950-51 and were too widely dispersed to have much effect on the individual.

c. Indirect Taxes

Commodity taxes and enterprise profits that were passed on to retail prices -- the most important form of tax on Chinese consumers -- contained the inequities common to such taxes in every country. No allowance was made for the number of dependents in a household. The tax fell unevenly on households with similar income and dependents but with different expenditure patterns. The tax penalized households with low assets and high expenditures. Although these inequities exist in varying degree in any commodity tax system, they were felt acutely in the Chinese system because of the great importance placed on commodity taxes and the absence of direct taxes. It is estimated that various types of indirect taxation represented 40 percent of all money taxes on Chinese consumers in 1950 but that this proportion increased to approximately 70 percent by 1953 and to 99 percent in 1959.\* This high concentration on indirect taxes intensified their inherent defects and greatly affected the equity of the over-all tax system, particularly in cities where money income was much higher than in the countryside. There was little attempt in China to redress these tax inequities through other measures. The Chinese did not have direct subsidies for dependents of urban families (as was the case in the USSR), personal medical aid was not highly subsidized, and public expenditures for other social services were small in relation to tax revenues.

B. Economic Rationality

It was particularly important to the Chinese Communists to relate the tax system to their fundamental economic policy of forced-draft industrialization. If the tax system supported the economic objectives of the regime (or at least did not disturb them), the system may be said, for the purposes of this report, to have met the criterion of economic rationality. The adequacy of the tax system in this respect may be judged on the basis of (1) its effect on the allocation of resources, (2) its effect on the price level, and (3) its effect on incentives.

\* See Table 22, p. 60, above.



### 1. Effect of Taxes on the Allocation of Resources

The major economic objectives of the Chinese Communists were to substitute public for private enterprise and to achieve rapid industrialization with emphasis on heavy industry. During 1950-59 this program required rearrangement of resources and their allocation according to detailed priorities. The tax system had only a peripheral role in the pursuit of these objectives (the direct power of the state over resources was a much more important factor). The tax system, nevertheless, should not have worked at cross-purposes with these objectives. On the contrary, it should have given them positive support where there was no serious conflict with other tax requirements.

The industrial and commercial taxes that the Chinese Communists instituted in 1950 discriminated against private interests. Businessmen were required to pay taxes in addition to those paid by state and cooperative enterprises, and the revenue service enforced taxes against private firms with methods that were sometimes confiscatory. Although many other techniques were adopted by the Chinese to further the goal of socialization, taxes made a distinct contribution. Both the structure of taxes and their enforcement against private business confirmed the Chinese statement that taxes were designed "to utilize, to restrict, and to transform" the private sector.

An examination of the tax rates applicable to Chinese industry and commerce reveals that there was a distinct pattern of favoritism toward industry, with a special advantage given to heavy industry. This pattern is apparent in the examples shown in Table 25\* of gross receipts tax rates and the deductions from net income tax that were applicable with little change from 1950 through 1957.

There is a marked difference between the first commodity group in Table 25 (heavy industry) and the other groups. The purpose of these tax differentials was not so much to cause a direct shift in resources as it was to create an unprofitable situation for non-essential activities and a rewarding one for heavy industry. In this respect, taxes supported other measures that the Communists took to restrict and eliminate undesirable activity.

The changes made in 1958 in industrial and commercial taxes carried forward the general policy of taxing consumer goods (particularly luxuries) more heavily than industrial products. In 1959, many products of heavy industry either were not taxed at all or were taxed at rates considerably lower than consumer goods that

\* Table 25 follows on p. 76.

Table 25

Communist China: Treatment of Selected Commodity Groups  
Under Gross Receipts Tax and Net Income Tax  
for the Period 1950-57

<u>Commodity Group</u>	<u>Gross Receipts Tax (Percent of Gross Receipts)</u>	<u>Deduction from Net Income Tax (Percent)</u>
Mining and metallurgy, machine building, basic chemicals	1	40
Cotton textiles	1	10
Rubber and leather products	2	15
Drugs and medical supplies	2	10
Food and beverage industry	2.5	10
Photography, clocks, and watches	3	0
Insurance companies	4	0
Silversmiths	5	0
Stock underwriting	15	0

were produced by light industry. The discriminatory taxes against private business were unnecessary after 1956, and in 1958 the tax structure was simplified by the abolition of these and other taxes.

During the period when there were still individual farmers (1950-56), the regime relied to some extent on differential tax rates in agriculture to alter the crop pattern. Tax advantages were granted in an effort to encourage industrial crops, such as cotton, tobacco, and ramie. These advantages coincided with variations in state procurement prices to effect the necessary changes.

The collection of such other revenues as the salt tax, customs, and miscellaneous local levies probably had little effect on the allocation of resources. These revenues almost certainly did not conflict with the major economic objectives of the Chinese Communists.

In summary, the Communist tax system had only a minor effect on the allocation of resources when compared with the power of the state to allocate most resources directly, but the structure of business taxes gave positive support to the Communists' objectives in this respect. There were frictional costs in shifting resources from

private to socialized control and into heavy industry, and these frictional costs were minimized by the Chinese through their policy of permitting private forms of organization to exist as long as they were useful to the state. In any event, these costs were clearly offset in the Chinese view by the economic and political advantages of socialized control and planned organization.

## 2. Effect of Taxes on the Price Level

Price control extended over a wide range of commodities in Communist China during 1950-59, and according to official Chinese statistics, prices at both wholesale and retail levels were relatively stable. Many basic consumer goods, particularly foodstuffs and clothing, were rationed. Thus there was little need for taxation as an instrument in fighting open inflation. The magnitude and structure of taxes have played a part, however, in reducing the pressures on official prices.

The proportion of consumer money income taken by taxes increased steadily from 1950 (17.4 percent) through 1954 (31.5 percent). After dropping slightly in 1955-56, this proportion again increased annually through 1959 (to 33.5 percent). Consumer money taxes, therefore, were rising faster than consumer money income during these years when an increasing share of national product was being devoted to investment. The diversion of consumer money income into liquid assets was relatively small during the entire period 1950-59. Sales of domestic bonds to consumers accounted for 2 percent or less of consumer money income annually, whereas increments to personal bank savings were below 2 percent in every year except 1958-59 (when they were about 5 percent).<sup>\*</sup> The major task of keeping disposable money income within bounds thus fell on money taxes on consumers.

The structure of taxes also has given some support to the objective of restraining inflationary pressures by controlling consumer expenditures at the margin. The very low level of per capita income in Communist China probably resulted in a high marginal utility of goods. Increments to income were then more desirable for their ability to satisfy specific needs for commodities than as additions to liquid assets. This use of income was, however, in direct conflict with the state policy of restricting consumption (and at the same time controlling inflation) in order to devote an increasing share of national product to investment. It was essential in this combination

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<sup>\*</sup> A very active campaign was conducted in China to encourage both personal savings and the purchase of government bonds. It is probable that in some cases the regime used a mild form of compulsion, and in this sense these items also represented a form of taxation.

of circumstances to penalize spending. The heavy reliance that the Chinese placed on commodity taxes, with high rates for most consumer goods, met this requirement reasonably well, and it will be particularly useful as personal income rises beyond the subsistence level and encounters increasingly higher tax rates (or prices) for nonessential items.

### 3. Effect of Taxes on Incentives

There probably was not the same emphasis on wage incentives in Communist China as in the USSR during 1950-59. Some of the Chinese work incentives arose through fringe benefits such as low-cost housing, inexpensive meals, and recreational activity provided at the factory or shop. Specific wage incentives as such are not so important in this evaluation as the extent to which the structure of personal taxes could disturb or reinforce these incentives.

Nearly all taxes paid by household consumers in China were indirect and were included in retail prices of consumer goods. Direct taxes on consumers represented only about 1 percent of consumer money taxes. There were no taxes on personal income, and there was a deduction of only 1 percent from wages for union dues. Thus the incentive to work additional hours was high because additional wages were not eroded by direct, progressive taxation.

The ratio of marginal to average tax rates in Communist China was very low and may have been near unity. Where this ratio is low, increases in personal income and expenditure will result in only mild increases in the proportion of income taken by taxes. As consumer expenditures increase, the average tax rate will not rise appreciably, and the impact of the tax burden may be virtually unchanged. At the same time, per capita income in China was very low, and the marginal utility of goods (even to satisfy subsistence needs) was very high. This combination of factors increased the incentive to work in order to increase personal spending. The power of the state to control the labor force directly, however, had much greater influence than the tax structure on actual working time.

### C. Costs of Administration

Ease of administration was not so important a factor to the regime in determining its tax structure as adequacy of revenue and the need to minimize the apparent burden through indirect taxes. Collection problems occupied some attention, however, and opportunities to simplify the tax system were sought.

The basic agricultural tax, effective from 1950 to 1957, together with its associated local surtaxes, involved more individual taxpayers than any other revenue measure in Communist China. It was a graduated gross income tax that was applied to individual farm households with allowance for dependents, and it was paid twice each year (following the spring and autumn harvests). This tax, collected from some 100 million household taxpayers, probably required a substantial collection effort. In comparison with other revenues collected (the agricultural tax represented about 10 percent of the total revenue), it may have been one of the most costly forms of Chinese taxation, but part of these costs would have been incurred in any system of farm procurement for sales in retail markets.

Although the costs of collecting the agricultural tax were high, the Chinese Communists probably minimized these costs as much as possible. The set yield was used as a tax base, rather than annual production, thus eliminating the burden of estimating exact yields each year. There was no need to calculate costs of production, because only unadjusted gross income was considered. The taxpayer was not required to file any type of return or to keep records, and in many cases the agricultural tax was paid concurrently with compulsory sale of grain to the state. About 90 percent of the tax was paid in kind at the time of harvest, thus eliminating the need to transfer funds. Probably no alternative form of agricultural tax was feasible during 1950-57, when the household unit was still the basic Chinese taxpaying unit. Whatever additional costs may have been added by graduating the rates probably was justified in the Communist view by the desire to redistribute farm income. The revision in 1958 in the agricultural tax greatly reduced its cost of administration by abolishing progressive rates and by designating the large agricultural cooperative (later the production brigade) as the taxpaying unit.

The industrial and commercial taxes levied by the Chinese Communists during 1950-57 were designed in part to restrict private business. The Chinese press described in some detail the difficulties of administering these taxes and referred occasionally to the relatively high costs of collection. From an administrative point of view these taxes should have been simplified, but the Communists apparently deemed their structure essential and their costs warranted in order to support the policy of suppressing private business. The latter was almost completely socialized by 1958, and the multiple taxes on industry and commerce were then reduced to a single tax measure.

The consolidated industrial and commercial tax of 1958 was relatively easy to administer. Most of the revenue under this measure was collected at the manufacturing or wholesale procurement level, where the number of taxpayers was relatively small and the compliance

rate high. The levy on retail trade and various services, also part of this tax, represented a heavier collection burden, but probably was easier to administer than the same taxes levied from 1950-57 on a greater number of private retail merchants.

The profits tax (or remission of profits) on state enterprises was a model of administrative ease. This measure represented the largest source of budgetary revenue and had by far the lowest collection cost per unit of revenue. It avoided many complications of the corporate profits tax in Western countries, such as allowable deductions from income, loss carryovers, and capital depreciation rates. Each enterprise simply forwarded its profits each month to the central treasury or to the ministry under which it was controlled. Administration amounted to a periodic audit by the appropriate tax bureau.

The miscellaneous taxes in China presented no administrative complications. The salt tax was levied on salt producers, all of whom were in 1959 under state or cooperative control. Customs duties were collected from a few state corporations that monopolized foreign trade. Local government fees and surtaxes may have involved somewhat higher collection costs, but they were relatively unimportant in the revenue structure.

#### D. Alternative Forms of Taxation

The most important function of the Chinese Communist revenue system during 1950-59 was its support of the economic objectives of the regime -- rapid industrialization and the substitution of public for private control over resources. Large increases in government revenue during this period represented the financial mechanism for allocating an increasing share of total resources through the government budget to public investment, a step that resulted in substantial increases in industrial production. In this way the Chinese budget effectively met the criterion of providing adequate revenue to finance economic development. Alternative forms of taxation, however, could have been used by the Chinese Communists to fulfill their revenue objective. The questions to be considered are (1) whether a different revenue structure could raise an equal or larger amount of income at an equal or lower cost and with no impairment in equity and (2) whether the system could be so formulated to improve equity with no loss of revenue and no increase in cost. These questions are only partly relevant for the Chinese system of 1950-57 because some taxes at that time had deliberate regulative and discriminatory functions, whose extra costs were justified by policy objectives. Other tax measures, however, were not inhibited in this way and were subject to variations in structure.

In considering tax alternatives it is helpful to examine the shares in total government income contributed by various revenue sources in Communist China and the comparative size of the government budget. The following tabulation shows the percent of the total revenue contributed by each source during 1955-58:

<u>Source of Income</u>	<u>Percent</u>
Taxes	47
Of which:	
Commodity taxes	36
Customs duties	2
Direct taxes on income and wealth	9
Other income	53
Of which:	
Income from state enterprises	47
Domestic bond sales	2
Loans from abroad	1.4

During this period, budgetary revenue represented about 26 percent of the estimated gross national product in an economy that provided per capita GNP of less than \$100.

One source of revenue which the Chinese Communists could have exploited but which was ignored was the individual income tax. This tax would have been particularly suitable to personal cash income in urban areas. With graduated rates and allowance for dependents, it would have removed some of the inequities inherent in the heavy commodity taxes on consumers. Its use, at least to supplement the commodity taxes, would have added some progression to the over-all tax structure.

An individual income tax in Communist China would gain support largely on the grounds of equity and social justice because it does not meet other taxing criteria as well. Administrative costs would have been high because the number of income recipients involved is large and because income tax returns would be required of many illiterate and semi-illiterate taxpayers. Even an income-withholding scheme that excused most individuals from filing returns probably

would be more costly than the already existing structure of commodity taxes. The individual income tax also would have the effect of minimizing the incentive to work, an effect less pronounced in the collection of commodity taxes. The ratio of marginal to average tax rates is close to unity under the present commodity taxes, providing an incentive to increase income and expenditure that would be diminished by a graduated income tax. Wage and salary earners also would become more conscious of the extent of their tax burden under an income tax. From the point of view of the magnitude of revenue to be collected, it is unlikely that the income tax could replace commodity taxes as a revenue source; it could at best serve only as a supplementary levy.

On balance it appears that the disadvantages in terms of costs, incentives, and adequacy of revenue outweigh the gains in equity and social justice that could be achieved by an individual income tax in Communist China. In a different social structure, a strong case might be made for permitting the individual income levy to have some share in the consumer tax structure, but equity and social justice through taxation do not rank high in over-all Communist philosophy, which lays primary stress on public ownership of resources and on the direct equalization of income as the means to social justice. Probably no form of direct tax on consumers in China would be as productive, as economical, and as acceptable to taxpayers as the commodity taxes that dominate the structure at present.

Even in the widespread tax reform of 1958, commodity taxes probably could not have been formulated to permit a substantial increase in equity or social justice. An attempt at progression was apparent in the commodity rate structure, but achieving progression was a difficult task in a commodity tax that had to raise very large amounts of revenue. The higher the revenue goal, the heavier the tax had to fall on basic consumption, especially in an economy with low consumer income. Although the major hope for improvement in equity lies in shifting some of the burden from commodity taxes to other forms of revenue, it would be difficult to reduce the share of revenue derived from commodity taxes because there would be no practical alternative from the Chinese Communist point of view. The already large revenue share received from state enterprises could hardly be increased for this purpose. On the contrary, good accounting arguments existed for reducing it. Other forms of revenue -- such as customs, the agricultural tax, bond sales, and miscellaneous fees -- were not capable of sufficient growth to be useful in this respect. High commodity taxes were essential and continued to be the most appropriate method of taxing the Chinese consumer.

The other big source of revenue, income from state enterprises, also was ideally suited to the Chinese situation. A part of this tax



was not shifted to consumers, whereas the incidence of that part applicable to consumers was widely dispersed and indirect in form. The collections from this source were probably at an optimum level during 1950-59.

E. General Appraisal

The revenue structure in Communist China during 1950-59, considered in terms of the fundamental economic goals of the regime, stands up well against the criteria traditionally used to evaluate a tax system. Using a plus sign (+) for positive aspects, a zero (0) for neutral aspects, and a minus sign (-) for negative aspects, the Chinese revenue system may be summarized as follows:

Economic rationality	+
Adequacy of revenue	+
Social justice	0
Equity	-
Cost of administration	+

These criteria are arranged approximately in the order of their importance to the Chinese Communists. Economic rationality and adequacy of revenue were much more important than the other three criteria to the Communist system because they gave the clearest support to the goals of rapid industrial growth and socialization of economic activity. The criterion of social justice is more important in the Western democracies than in Communist China, but it was met in part under the Chinese system by reducing the differences in individual incomes before taxes. The criterion of equity also received more attention in most Western countries than in China, but other revenue goals of the Communists have often conflicted with the criterion of equity and have been given precedence over it. The criterion of cost of administration often is of secondary importance to any modern tax system. In China, however, the cost of administration was reduced appreciably when the tax system was reformed in 1958.

## APPENDIX A

### METHODOLOGY

#### I. Notes to Table 10 (Communist China: Estimated Profits and Depreciation Reserves of State Enterprises, 1952-59)\*

The origin of data for each entry in Table 10 is indicated in the following paragraphs.

1. Total Revenue from State Enterprises 62/
2. Fixed Assets of State Enterprises

The Chinese Communists reported that the value of the total fixed assets of state enterprises in 1952 was 29,600 million yuan. 63/ The Chinese also reported the yuan value of the additions to fixed productive assets from 1952 through 1958. 64/ It is probable that almost all, if not all, of these annual additions to fixed assets were attributable to state enterprises. It is unlikely that the value of private fixed assets increased after 1952. The value of private industrial and commercial assets was estimated in a non-Communist document to be 3,300 million yuan at the beginning of 1954 65/ and by the Chinese Communists to be 2,400 million yuan at the beginning of 1956. 66/ Although these two figures for private industrial and commercial assets may not be strictly comparable, they indicate a probable decline (rather than an increase) in private business assets during this period. The assets of joint public-private enterprises would have increased very slowly during the period 1952-56 because this type of enterprise did not become widespread until 1956. It is believed, therefore, that the additions to productive fixed assets reported by the Chinese for the period 1952-57 were almost entirely attributable to state enterprises. In 1958 the profits of joint public-private enterprises were for the first time included in the profits reported for state enterprises, and it seems a reasonable corollary that at the same time the fixed assets of joint public-private assets also were included with the fixed assets of state enterprises.

3. Depreciation Reserves

The depreciation reserves for the years 1954-57 may be derived from Chinese sources. The Chinese stated that government net financial revenue (excluding "foreign credits and depreciation") was 31.2 percent

\* P. 35, above.

of national income in 1954, 29.5 percent in 1955, 29.6 percent in 1956, and 30.0 percent in 1957. <sup>67/</sup> These percentages were applied to national income figures (obtained from the same sources) to derive government net financial revenue. The resulting figures were then subtracted from total budgetary revenue (see Table 3\*) to derive the value of foreign credits and depreciation. Foreign credits, as stated in Chinese documents (see Table 12\*\*), were then subtracted to give a residual for depreciation. These calculations are recapitulated as follows:

	<u>Million Current Yuan</u>			
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Total budgetary income	26,237	27,203	28,743	31,020
Less net financial revenue	-24,150	-24,160	-27,110	-28,540
Foreign credits and depreciation	<u>2,087</u>	<u>3,043</u>	<u>1,633</u>	<u>2,480</u>
Less foreign credits	-884	-1,657	-117	-23
Depreciation reserves	<u>1,203</u>	<u>1,386</u>	<u>1,516</u>	<u>2,457</u>

These estimates of depreciation reserves represented 3.2 percent of the total fixed assets in 1954, 3.2 percent in 1955, 2.9 percent in 1956, and 4.0 percent in 1957. The average of these four depreciation rates (3.3 percent) was applied to the total fixed assets for 1952, 1953, and 1958 to obtain the estimated depreciation reserves for those years.

#### 4. Profits

The figures for annual profit for 1952-58 represent the residual obtained by deducting the depreciation reserves and the amounts attributed to all other elements of enterprise income (as stated in the footnote to Table 10) from the total revenue from state enterprises. The breakdown of state enterprise income for 1959 was estimated by assuming that the proportion of depreciation reserves in the total income for 1959 was equal to the weighted average for the period 1954-56 (11.9 percent).

\* P. 10, above.

\*\* P. 44, above.

II. Notes to Table 14 (Communist China: Estimated Consumer Money  
Income, 1950-59)\*

The origin of data for each entry in Table 14 is indicated in the following paragraphs. Many of the data required to compute the money income of consumers, from the expenditures side, have been given directly in yuan by the Chinese or can be derived from Chinese data.

1. Adjusted Retail Sales

The largest single item of consumer expenditures is retail sales, figures for which are available for each year during 1950-59. The total retail sales were adjusted to remove estimated sales to government and business organizations, as follows:

Million Current Yuan			
<u>Year</u>	<u>Total Retail Sales**</u>	<u>Less Sales to Government and Business***</u>	<u>Net Sales to Consumers</u>
1950	17,060	700	16,360
1951	23,430	1,400	22,030
1952	27,680	2,400	25,280
1953	34,800	4,650	30,150
1954	38,110	4,800	33,310
1955	39,220	3,600	35,620
1956	46,100	3,700	42,400
1957	47,420	2,700	44,720
1958	54,800	3,000	51,800
1959	63,800	3,500	60,300

2. Purchase of Consumer Services

Consumer services consist of money expenditures for house rent, transportation, utilities, amusements, and personal services. The figures appearing in Table 14 for 1950-57 are based on estimates by Hollister, and the figures for 1958-59 are estimated to be the same percentage of total retail sales as for the 1950-57 period. 70/ Consumer services include expenditures for urban house rent based on the number of square meters of housing in 1950 and annual additions

\* P. 49, above.  
\*\* 68/  
\*\*\* 69/

thereto. It is assumed that one-half of the total bill for urban house rent was paid in cash. Only this cash amount is included in the item "Purchase of Consumer Services" in Table 14.

### 3. Purchase of Government Bonds

The data on the purchase of government bonds (all for cash) for the years 1950-58 are from Table 11.\* The figure for 1959 represents known sales of provincial bonds. National bonds were not sold in that year.

### 4. Trade Union Dues

Trade union dues, at 1 percent of the total wages paid, are estimated to have been as follows:

<u>Year</u>	<u>Number of Workers** (Thousand)</u>	<u>Average Annual Wage*** (Current Yuan)</u>	<u>Total Payroll (Million Current Yuan)</u>	<u>Union Dues (Million Current Yuan)</u>
1950			2,760 <sup>†</sup>	28
1951			5,740 <sup>†</sup>	57
1952	15,804	446	7,049	70
1953	18,256	496	9,055	91
1954	18,809	519	9,762	98
1955	19,076	534	10,187	102
1956	24,230	610	14,780	148
1957	24,506	637	15,610	156
1958	32,000	600	19,200	192

\* P. 41, above.

\*\* 71/

\*\*\* 72/. The figure for the average annual wage in this column was multiplied by the total number of workers in the first column to obtain the total payroll. The figure for 1958 was given as 656 yuan but was said to be applicable only to those employed before 1958. The new employees added in 1958 included many new recruits into the labor force who were employed by small-scale, countryside plants. Their wages undoubtedly were below the average wage. Therefore, an estimated average wage of 600 yuan is used for 1958. Even a large error in this estimate would have a negligible effect on the final end product of this table. Union dues in 1959 are believed to have been approximately the same as in 1958 and are estimated to have been 195 million yuan.

<sup>†</sup> 73/

### 5. Increments in Personal Bank Deposits

The Chinese gave in one series the amount of rural and urban bank deposits for the period 1949-57. 74/ They also reported that at the end of 1959 urban bank deposits were 4,720 million yuan and that rural bank deposits were "more than 4,000 million yuan," giving a total of at least 8,720 million yuan. 75/ The increase in the 2-year period 1958-59 was at least 5,930 million yuan. It is believed that the increase in bank deposits would have been greater in 1959 than in 1958 (1) because part of the large increase during the 2-year period probably was the result of including the deposits of communes and production brigades in the total savings deposits, beginning in late 1958 and continuing throughout 1959, and (2) because national bond sales were discontinued in 1959, with the probability that thereafter the Communists gave greater emphasis to personal savings accounts as a method of absorbing consumer purchasing power. On the basis of these two premises, it was estimated that the increase in total savings was 2,300 million yuan in 1958 and 3,630 million yuan in 1959.

### 6. Direct Taxes on Consumers

The figures for direct taxes on consumers are detailed as follows:

Million Current Yuan			
Year	10 Percent of Agricultural Taxes* (Paid in Cash)	Miscellaneous Fees Paid by Households**	Total
1950	191	90	281
1951	217	250	467
1952	270	240	510
1953	271	330	601
1954	328	210	538
1955	305	160	465
1956	297	170	467
1957	297	80	377
1958	326	100	426
1959	330	100	430

\* As noted in II, A, 1, a, p. 12, above, approximately 10 percent of the basic agricultural tax was paid in cash. Figures for the total agricultural taxes in 1950-59 are given in Table 3 (p. 10, above).

\*\* Fines; administrative fees; insurance; and fees for educational, health, and other services. Figures for 1950-57 are from Hollister. 76/ In the absence of a specific figure for 1958-59, estimates of 100 million yuan were assumed.

The estimates of the total consumer money income in Table 14 from the expenditures side can be checked for the years 1954-57 by estimates from the income side. For those years the Chinese reported the total money income of urban citizens and the value of products purchased from farmers. Neither of these magnitudes was defined, and their specific composition was not known. Nevertheless, the context in which they were reported by the Chinese implied that they were mutually exclusive and that each of them probably represented nearly the total money income for its respective income category. The following tabulation represents these estimates of consumer money income from the income side:

Million Current Yuan				
<u>Year</u>	<u>Money Income of Urban Citizens*</u>	<u>Purchase of Agricultural Products**</u>	<u>Other Money Income***</u>	<u>Total Money Income</u>
1954	19,660	17,360	3,702	40,722
1955	20,620	17,800	3,842	42,262
1956	24,700	18,400	4,310	47,410
1957	25,510	20,280	4,579	50,369

\* 77/

\*\* 78/. Purchases of agricultural and subsidiary products by state commerce, supply, and marketing cooperatives. These sums constituted the largest source of money income to the farm sector.

\*\*\*. The first two categories in this tabulation accounted for most of the total consumer income. Additional money income probably was received in smaller villages not classified as "urban," by peddlers in the countryside, through sales by farmers to the small free market that has existed from time to time, and the like. These income sources are estimated to have been 10 percent of the sum of the first two categories.

III. Notes to Table 16 (Communist China: Estimated Consumer Money Taxes, 1950-59)\*

The origin of data for each entry in Table 16 is indicated in the following paragraphs.

1. Direct Taxes on Consumers

Data on direct taxes on consumers are from Table 14.\*\*

2. Salt Taxes

Salt taxes, levied on salt producers, applied only to salt which was used in personal consumption and which was used by fishermen. Salt used for agricultural and industrial purposes was not taxed. It is believed, therefore, that all of the salt taxes reported in budget revenue were passed on to consumers.

3. Customs Duties

Chinese foreign trade figures show that the value of consumer goods represented about 10 percent of the value of total imports during 1950-59. Consumer goods, however, were assessed customs duties that were from 2-1/2 to 5 times higher than the most essential industrial goods and 2 times higher than industrial goods of less essential types (see II, A, 3, p. 29, above). It is probable, therefore, that duties on consumer goods represented at least 25 percent of the total customs collections. Some of the nonconsumer imports consisted of raw materials and machinery for light industries that were used in production of consumer goods, and it is believed that another 25 percent of the total customs collections could be attributed to these items. Thus it is assumed that one-half of the total customs duties collected each year represented indirect consumer money taxes.

4. Retail Commodity Taxes and Retail Profit Taxes

Estimates of commodity taxes paid by consumers are derived by dividing this levy into two separate groups: (1) taxes that were applied at the retail level and (2) taxes that were applied at the manufacturing and wholesale levels. The retail commodity taxes are presented in detail in Table 26.\*\*\*

\* P. 52, above.

\*\* P. 49, above.

\*\*\* Table 26 follows on p. 93.



Table 26  
Communist China: Retail Commodity Taxes  
1950-59

							Million Current Yuan
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Year	Adjusted State Retail Trade <u>a/</u>	Taxes on State Retail Trade <u>b/</u>	Profit of State Retail Trade <u>c/</u>	Adjusted Nonstate Retail Trade <u>a/</u>	Taxes on Nonstate Retail Trade <u>d/</u>	Profit of Nonstate Retail Trade <u>e/</u>	Total Retail Commodity and Profit Taxes (Sum of Columns 2, 3, 5, and 6)
1950	1,230	74	98	15,130	908	144	1,224
1951	3,100	186	248	18,930	1,136	140	1,710
1952	7,200	432	576	18,080	723	132	1,863
1953	10,300	618	824	19,850	794	120	2,356
1954	18,150	1,089	1,452	15,160	606	127	3,274
1955	19,340	1,160	1,547	16,280	651	43	3,401
1956	23,595	1,416	1,888	18,805	752	376	4,432
1957	24,205	1,452	1,936	20,515	1,026	410	4,824
1958	33,685	2,021	2,695	18,115	906	362	5,984
1959	60,300	3,618	4,824				8,442

a. The value of retail sales of the state network in 1950-58 was given in yuan. <sup>79/</sup> The adjusted nonstate retail sales in column 4, above, was the difference between total retail sales (in Table 14, p. 49, above) and state retail sales. The adjusted nonstate retail sales included those of the private sector, joint public-private enterprises, and cooperatives. The sales of both state and nonstate sectors above were adjusted similarly to the total retail sales in Table 14 (p. 49, above) on the assumption that approximately 75 percent of the retail sales to government and business enterprises were from the state network and approximately 25 percent were from the nonstate network. No breakdown between state and nonstate retail sales is available for 1959. Nonstate retail sales are therefore included with state retail sales for that year.

b. In December 1957 it was said that "according to provision of current tax laws" 6 percent of state "sales turnover" was accounted for by taxes. Furthermore, it was said that, calculated on the basis of commodities sold in 1954, a 10-percent increase in sales would yield 130 million yuan in additional taxes. <sup>80/</sup> The total taxes must, therefore, have been 1,300 million yuan, indicating a "sales turnover" of 21,667 million yuan (tax collection divided by average rate). The total retail sales of state commerce in 1954 were reported officially to be 21,750 million yuan. <sup>81/</sup> Because this published figure is almost identical with the figure of "sales turnover" computed in this report, the figure almost certainly refers to retail trade. The Chinese monograph giving the figure of "sales turnover" was published in December 1957, and the "current tax laws" to which it referred probably were the rates in effect from 1953 through 1958 with only minor changes (see II, A, p. 11, above). The over-all tax rate of 6 percent was therefore applied to state retail trade for these years to obtain the taxes on state retail trade in column 2. The same rate also was applied to state retail trade for the years 1950-52 because a comparison of tax rates for this period with those for 1953-57 revealed very little change (see II, A, p. 11, above). This rate of 6 percent was also applied to 1958-59 because during the first half of 1958 the old tax rates were applicable and because the new rates that took effect for the latter half of 1958 and for 1959 differed very little from the previous rates. This assumption of an unchanged 6-

Table 26

Communist China: Retail Commodity Taxes  
1950-59  
(Continued)

percent average rate throughout the period 1950-59 assumed that there were no marked changes in the commodity composition of retail trade. Retail trade in China during the period contained such a high proportion of daily essentials that substantial changes in the commodity mix were unlikely.

c. The same monograph that reported that taxes comprised 6 percent of "sales turnover" stated that profits were "about 8 percent" of sales turnover. This percentage was applied to the state retail sales (column 1) for the years 1950-59 to obtain the figures in column 3. Some variation in the profit rate may have occurred from year to year, but there is no evidence as to the actual rate for any particular year. These estimates may have been reasonably accurate for the years 1955-57 (the years immediately before the monograph was published) but may have been only approximations for other years. There is some justification for assuming that profits of Chinese enterprises were relatively constant. Profits of all state enterprises (including commerce) were planned quite specifically for at least a year in advance and in the case of the First Five Year Plan (1953-57) were planned 5 years in advance (realized total government revenues for the First Five Year Plan exceeded the planned figures by less than 5 percent). There has been no evidence or suggestion in available literature of an increase in the profit rate of one state sector at the expense of another. Furthermore, the profits of all state enterprises as a percentage of fixed assets remained relatively constant during the years that this relationship was examined, 1952-58 (see Table 10, p. 35, above).

d. The tax rate on nonstate retail trade during the period 1950-51 is assumed to have been 6 percent of sales, equivalent to the rate for state sales. It is believed that the commodity composition in the state and nonstate sectors may have been comparable in those years and that both sectors were subject to the same tax structure. The state sector accounted for less than one-fourth of the total retail sales in 1950-51 but increased to more than one-half by 1954. State trade first assumed control over the more essential commodities of retail trade, on which tax rates were relatively lower. The higher taxed commodities probably became a larger share of private retail trade (which was part of the nonstate sector) after 1951. Most of these commodities, however, were purchased by private retailers from manufacturers or wholesale houses. The commodity taxes applicable to them were paid by the manufacturer and included as part of the wholesale (or manufacturers') price, and these commodity taxes were not paid directly by private retail traders. Commodity taxes also were paid by organizations or individuals who purchased farm and aquatic produce for resale, but it is improbable that substantial amounts of such produce were purchased directly from the farmers by private retail traders after 1952. An increasingly large part of the supplies of private retail traders after 1952 was made available to them directly by the state. It is likely, therefore, that for the most part private traders after 1952 paid only the 3-percent tax on general retail trade. Included in the nonstate sector of retail trade are the sales of cooperatives and of joint state-private enterprises, which represented from 5 to 30 percent of the total retail sales during 1954-58. Most supplies of the joint state-private retailers were furnished by the state wholesale trade organization, and taxes paid by the joint state-private traders consisted largely of the 3-percent general retail sales tax. Cooperative retail sales consisted of both procurement through the state network and direct procurement, so that the average tax rate may have been more nearly equivalent to that of state sales (6 percent). There is no way of computing a precise average tax rate for all nonstate retail sales (an average for its three components together). The average rate is estimated to have been about 4 percent during 1952-56 (when cooperative trade was a smaller share of the total) and to have risen to 5 percent during 1957-58 (when cooperative trade accounted for the largest share of the total nonstate trade). These average rates -- 6 percent for 1950-51, 4 percent for 1952-56, and 5 percent for 1957-58 -- were applied to the adjusted retail sales of the nonstate sector in column 4, above. No breakdown between state and nonstate retail trade was available for 1959, and nonstate retail trade was included in state retail trade in column 1, above.

Table 26

Communist China: Retail Commodity Taxes  
1950-59  
(Continued)

e. No profit data were available for the nonstate sector of retail trade, and no accurate estimate of the profit tax on this sector was available. It is not known to what extent the profit tax on the private sector (for which figures were available) was shifted forward, but in view of the increasing scope of state retail price controls and the discriminatory taxes applied to squeeze the private sector, it is doubtful that forward shifting of the business profits tax was substantial. It is believed that the profit tax was not reflected to any appreciable extent in retail prices of the nonstate sector until the cooperatives assumed an increasingly important role in nonstate trade after 1955. The profit tax that was applied to cooperatives is unknown but was said to be lower than that applied to private business. In the absence of specific figures, it was assumed that for 1950-55 one-half of the profit taxes paid by private business were applicable to private retail trade and that one-third of this amount was shifted forward. In the years 1956-58 an arbitrary figure of 2 percent of nonstate retail sales was assumed to represent the profit taxes of cooperatives, joint state-private retailers, and the few remaining (and still profitable) private retailers. Although these estimates are crude, the magnitudes involved are relatively very small; therefore, even reasonably large errors would have an insignificant effect on the final estimated tax-income ratio.

5. Industrial Commodity Taxes and Industrial Profit Taxes

In addition to the retail commodity taxes described above, the Chinese levied commodity taxes at the manufacturing level and on the wholesale procurement of farm and aquatic products. These levies are estimated in Table 27,\* together with the estimated profit taxes that were shifted forward in consumer prices.\*\*

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\* Table 27 follows on p. 97.  
\*\* Text continued on p. 103.

Table 27

Communist China: Commodity Taxes and Profits Taxes  
 Levied at the Manufacturing Level and Shifted to Consumers  
 1950-59

Million Current Yuan				
Year	(1) Remaining Industrial- Commercial Taxes <sup>a/</sup>	(2) Remaining Industrial- Commercial Profits <sup>b/</sup>	(3) Incidence on Con- sumers of Column 1 <sup>c/</sup>	(4) Incidence on Con- sumers of Column 2 <sup>d/</sup>
1950	1,237	1,097	947	402
1951	3,283	2,742	2,488	905
1952	4,860	4,452	3,671	1,433
1953	6,718	6,111	5,070	1,913
1954	7,150	7,753	5,400	2,244
1955	6,871	8,374	5,193	2,564
1956	7,554	9,576	5,711	3,072
1957	8,412	9,437	6,359	3,057
1958	10,890	16,024	7,689	3,983
1959	12,080	23,766	8,533	5,428

a. Remaining industrial and commercial taxes are obtained by subtracting from total industrial and commercial taxes (given in Table 3, p. 10, above) the estimated retail taxes (columns 2 and 5 of Table 26, p. 93, above) and the profits tax of nonstate retail trade (column 6 of Table 26). The amounts in columns 2, 5, and 6 of Table 26 are included in the total industrial and commercial taxes of Table 3.

b. This column consists of profit remittances of state enterprises plus profits tax on private industry minus the profits from state retail trade (profits from state retail trade are accounted for in paragraph 4, p. 91, above).

c. The incidence on consumers of the remaining commodity taxes (those assessed prior to the retail level) was estimated approximately. The Chinese have given no breakdown of tax collections by commodity groups. By examining the tax rates applied to specific commodities, however, it was possible to form a general impression of the amount of such taxes that may have fallen on the consumer, because the taxes applied either directly to consumer goods or to materials and machines that were used in production of consumer goods. (The general tax rates for 1950-59 are presented in II, A, 2, p. 19, above.) Commodity taxes, levied on manufacturers or wholesale purchasers, were much higher for consumer goods than for industrial goods. For example, during 1950-57 the gross receipts tax for consumer goods was double that for industrial products (most of which were taxed at 1 percent). The commodity tax of 1950-52 ranged from 5 to 120 percent of taxable value for consumer goods, but only from 5 to 10 percent for industrial goods. Changes in the commodity tax in 1953 were minor and did not alter the general disparity between rates for consumer goods and those for industrial products. The new commodity circulation tax introduced in 1953 on 22 items applied mostly to consumer goods, which carried tax rates approximately double those of the few industrial items included. Finally, the consolidated industrial and commercial tax of 1958, which replaced all other commodity taxes below the retail level, carried relatively higher rates on consumer goods than on industrial goods. The following examples of specific commodity rates under the 1958 tax illustrate this difference (in percent of manufacturers' price or wholesale procurement price):

1958 Tax Rates			
On Consumer Goods	Percent	On Industrial Goods	Percent
Vegetable oil	12.5	Machines and machinery	5.0
Wheat flour and egg products	10.0	Mechanized vehicles	4.5
Grain	4.0	Pig iron and steel	
Other foods	5 to 44.0	ingots	5.0
Cotton yarn*	26.0	Coal gas	2.0
Tobacco and wines	40 to 69.0	Asbestos products	6.0
Other consumer goods	6 to 55.0		

\* Additional taxes, at various rates, also were levied on different grades of cotton cloth.

Table 27

Communist China: Commodity Taxes and Profits Taxes  
 Levied at the Manufacturing Level and Shifted to Consumers  
 1950-59  
 (Continued)

The tax on machines and machinery applied indirectly to consumer goods if the machine products were sold to light industry. Furthermore, many industrial products apparently were exempt altogether from the commodity tax. Although no specific data were available on which to base an estimate of the consumer share of total commodity taxes, it is believed that this proportion may have been roughly 75 percent during 1950-57. The unusually large increases in GNP during 1958-59 can be attributed more to increases in industrial than consumption goods. The estimated proportion of commodity taxes passed on to consumers is therefore reduced to 70 percent for those years. A tax on service trades was in effect with rates of 1.5 to 15 percent during 1950-57 and with rates of 3 to 7 percent effective in 1958. Many of those items which comprise normal consumer services (such as tailoring, dry-cleaning, bath houses, barber shops, restaurants, hotels, rental services) were specifically included. It is estimated that the average tax rate on consumer services may have been about 5 percent, and that this average rate covered about 80 percent of the annual purchase of consumer services estimated in Table 14.\* The estimated tax on consumer services was subtracted from column 1 -- Remaining Industrial-Commercial Taxes -- and to this residual was applied the estimated proportions of these taxes falling on consumers (75 percent for 1950-57 and 70 percent for 1958-59). These figures are as follows:

Million Current Yuan				
	(1)	(2)	(3)	(4)
Year	Tax on Consumer Services	Residual Industrial and Commercial Taxes	Amount of Column (2) Falling on Consumers	Sum of Column (1) and Column (3)
1950	76	1,161	871	947
1951	102	3,181	2,386	2,488
1952	104	4,756	3,567	3,671
1953	124	6,594	4,946	5,070
1954	148	7,002	5,252	5,400
1955	160	6,711	5,033	5,193
1956	182	7,372	5,529	5,711
1957	202	8,210	6,157	6,359
1958	221	10,669	7,468	7,689
1959	258	11,822	8,275	8,533

d. The incidence on consumers of remaining industrial and commercial profits has been estimated under the following categories:

(1) Profit from Foreign Trade

Profit from the two categories "Foreign Trade" and "Transport and Communications" has been said to represent 30 percent of the total profits of state enterprises. <sup>82/</sup> It is presumed that this general relationship may have covered the period 1953-59. (The article referred to gave the shares of profit contributed by broad categories of state enterprises without reference to a specific year and implied that they may have been applicable over a period of several years. It is more likely that deviations from these given shares occurred in earlier years than in the period 1953-59.) The 30 percent share in total profits attributed to foreign trade and transport and communications yielded value figures of 3,424 million yuan for 1956, 3,409 million yuan for 1957, 5,616 million yuan for 1958, and 8,577 million yuan for 1959. Other Chinese sources <sup>83/</sup> give the income remitted to the treasury by transport and communications alone (exclusive of foreign trade) for 1956 and 1957 and the planned figure for 1958. The planned figure for 1958 is presumed to have been overfulfilled in the same proportion that planned receipts from all state enterprises were overfulfilled. From these total income remissions by transport and communications, deductions were made for depreciation allowances on the same basis as this adjustment was made in Table 10 (p. 35, above). The resulting profit figures for transport

\* P. 49, above.

Table 27

Communist China: Commodity Taxes and Profits Taxes  
 Levied at the Manufacturing Level and Shifted to Consumers  
 1950-59  
 (Continued)

and communications were then deducted from the combined profits for foreign trade and transport and communications to obtain the profits for foreign trade alone for 1956 (1,519 million yuan), 1957 (1,615 million yuan) and 1958 (2,481 million yuan). Profits for foreign trade during the 3-year period 1953-55 can be derived by subtracting the figures for 1956 and 1957 from the total profits for Foreign Trade of the Five Year Plan (1953-57). <sup>84</sup>/ The 5-year profit was 6,330 million yuan, and the residual for the 3-year period 1953-55 was thus 3,196 million yuan. This sum was allocated over the 3 years in a manner that gave annual profit increases of the same magnitudes as the annual increases in foreign trade during 1953-55. The resulting yearly profit estimates are: 1953, 940 million yuan; 1954, 982 million yuan; 1955, 1,274 million yuan. Foreign trade profits for 1950-52 were presumed (arbitrarily) to have been the same percentage of foreign trade turnover as the average for the period 1953-57 (12.9 percent), yielding figures of 545 million yuan for 1950, 767 million yuan for 1951, and 835 million yuan for 1952. Foreign trade profit for 1959 was presumed to have been the same percentage of foreign trade turnover as the average for 1957-58 (16.9 percent), giving a profit figure for 1959 of 2,535 million yuan. In order to estimate the amount of foreign trade profits falling on consumers, it was assumed (as it was in the case of customs duties and for the same reasons indicated) that one-half of profits were eventually reflected in the prices of consumer goods. The assumption was not as applicable to the years 1950-51 -- during these years only the tax on profits of private traders (together with profits of state trade) represented a burden on consumer money income. Thus the profit incidence on consumers for 1950, and to a lesser extent for 1951, may have been somewhat overstated, but the error due to this factor would have been relatively very small. To recapitulate, the estimated annual profits earned in foreign trade and the portion attributed as a money tax on consumers were as follows:

Year	Million Current Yuan	
	Foreign Trade Profits	Foreign Trade Profits Passed to Consumers
1950	545	273
1951	767	384
1952	835	418
1953	940	470
1954	982	491
1955	1,274	637
1956	1,519	760
1957	1,615	808
1958	2,481	1,240
1959	2,535	1,268

(2) Profits from Transportation and Communications

Profits figures for transport and communications were estimated to have been 1,905 million yuan in 1956, 1,794 million yuan in 1957, and 3,135 million yuan in 1958. A separate source reported that profits of railroads alone in 1956 were 1,463 million yuan -- about 77 percent of the profits from transport and communications. (This estimate included only the incidence on consumers of profits from transportation, which in China was almost entirely rail. It is probable that only a very small portion of the communications profits represented a burden on consumer money income.) For the years 1952-56, it was presumed that 30 percent of total profits from state enterprises may have been attributed to foreign trade and transport and communications, as discussed in subparagraph (1) above. From the resulting figures, the estimates for foreign trade profits were subtracted to obtain profits estimates for transport and communications alone. No estimates were made of transport profits from the state sector for 1950-51, since this transport was relatively small compared with later years and profits were probably low. There is no available information on the profitability of transporting various types of commodities in Communist China. Of particular interest to Table 16 was the transport, largely by rail, of food from rural areas to urban and other rural areas, of consumer goods manufactured or imported for domestic use, and of passengers. The transport of industrial raw materials such as coal

Table 27

Communist China: Commodity Taxes and Profits Taxes  
 Levied at the Manufacturing Level and Shifted to Consumers  
 1950-59  
 (Continued)

and iron ore occupied the largest share of ton-kilometers hauled, but these were likely to be items of low profit. It is almost certain that relatively expensive and light-weight consumer goods contributed proportionately more to profit figures than they did to the ton-kilometer figures. In the absence of specific data, it was estimated that about 80 percent of transport and communications profits were earned by the railroads and that one-half of this amount had its final incidence on consumer money income. The annual estimates were as follows:

Million Current Yuan			
Year	Profits of Transport and Communications	Profits of Transport Alone	Transport Profits Passed to Consumers
1952	561	449	225
1953	971	777	389
1954	1,555	1,244	622
1955	1,548	1,238	619
1956	1,905	1,463*	732
1957	1,794	1,435	718
1958	3,135	2,508	1,254
1959	6,042	4,834	2,417

(3) Profits from Industry

In an article written in 1957 the Chinese reported that 35 percent of total profits from state enterprises were contributed by one group composed of heavy industries and 35 percent by another group composed of light industries. None of the profits of heavy industry were presumed to have been passed on to consumers in retail prices. This subparagraph is concerned only with the profits of the light industry group, which is said to include the Ministry of Food (processing), Ministry of Aquatic Products, Ministry of Light Industry, Ministry of City Services, Ministry of Commerce, the Lumber Corporation, Textile Ministry, and the pharmaceutical and rubber bureaus of the Ministry of the Chemical Industry. The 35 percent share of total profits earned by light industry was presumed to have been approximately correct for the period 1950-57. However, the very large increases in GNP in 1958-59 (the years of the "leap forward") were probably the result more of increases in heavy industry than of increases in light industrial and consumer goods. The share in profits of light industry for 1958-59 is therefore believed to have declined somewhat and may have been more nearly 25 percent. The ministries and bureaus listed as comprising the light industry group were engaged primarily in serving consumers. It is estimated that roughly three-fourths of their profits were passed on to consumers in the prices they paid for products of light industry. (This proportion was used for light industry by Holzman 85/ in estimating the burden of money taxes in the USSR, and it is believed to be approximately correct for China.) From the total profits of light industry must be deducted the profits on retail trade earned by the Ministry of Commerce, which already appear in Table 16 under the item "Retail Profit Taxes." (The Ministry of Commerce was included in the Chinese group of light industries.) The resulting estimates are as follows:

Million Current Yuan				
Year	Profits of Light Industry	Less "Retail Profit Taxes"	Net Profit of Light Industry	Profits of Light Industry Passed to Consumers
1950	270	98	172	129
1951	942	248	694	521
1952	1,629	576	1,053	790
1953	2,229	824	1,405	1,054
1954	2,960	1,452	1,508	1,131
1955	3,291	1,547	1,744	1,308
1956	3,995	1,888	2,107	1,580
1957	3,977	1,936	2,041	1,531
1958	4,680	2,695	1,985	1,489
1959	7,148	4,824	2,324	1,743

\* This figure was given specifically in yuan and actually represents about 77 percent of the total profits of transport and communications.



Table 27

Communist China: Commodity Taxes and Profits Taxes  
Levied at the Manufacturing Level and Shifted to Consumers  
1950-59  
(Continued)

The total industrial profits (including transportation and foreign trade) that were passed on to consumers, as estimated in the preceding pages, may be summarized as follows (the total of column 4 being carried forward to Table 16):

Year	Million Current Yuan			
	(1) <u>Foreign Trade</u>	(2) <u>Transport</u>	(3) <u>Light Industry</u>	(4) <u>Total Profits</u>
1950	273	N.A.	129	402
1951	384	N.A.	521	905
1952	418	225	790	1,433
1953	470	389	1,054	1,913
1954	491	622	1,131	2,244
1955	637	619	1,308	2,564
1956	760	732	1,580	3,072
1957	808	718	1,531	3,057
1958	1,240	1,254	1,489	3,983
1959	1,268	2,417	1,743	5,428

IV. Notes to Table 18 (Communist China: Indexes of Consumer Money  
 Income and Taxes, 1951-59)\*

Column 1 of this table, "Consumer Money Income Before Taxes," is an index of the consumer money income derived in Table 14.\*\* Column 2, "Consumer Money Taxes," is from Table 16.\*\*\* Column 3, "Consumer Money Income After Taxes," is an index of the figures obtained by subtracting the totals in Table 16 from the totals in Table 14. Column 4 in Table 18,† "Consumer Money Income After Taxes, Corrected for Price Changes," was obtained as follows: (1) retail trade figures from Table 14 were deflated by the official retail price index for the years 1951-58 (the Chinese reported that commodity prices in 1959 were "stable," and the index in 1959 was assumed to be unchanged from 1958 86/); (2) to these corrected retail sales figures were added the other components of consumer money income from Table 14; (3) consumer money taxes were subtracted from this figure; and (4) the results were reduced to an index. These calculations are shown in Table 28.††

The estimated consumer money income per capita in real terms was calculated by correcting for retail price changes and population increases. Changes (if any) in prices of other components of consumer money expenditure were not accounted for, but they represented only about 15 percent of the total and were items that probably experienced very little price change. The calculations are as follows:

Year	Consumer Money Income After Taxes and Corrected for Retail Price Changes (Million Current Yuan)	Chinese Population (Million)	Per Capita Money Income (Current Yuan)	Index of Per Capita Income (Previous Year = 100)
1951	19,260	558	34.5	
1952	20,666	570	36.3	105.2
1953	22,745	583	39.0	107.4
1954	24,780	596	41.6	106.7
1955	26,671	611	43.7	105.0
1956	31,803	626	50.8	116.2
1957	32,535	641	50.8	100.0
1958	38,125	657	58.0	114.2
1959	42,661	674	63.3	109.1

\* P. 55, above.

\*\* P. 49, above.

\*\*\* P. 52, above.

† P. 55, above.

†† Table 28 follows on p. 105.

Table 28

Communist China: Derivation of Consumer Money Income After Taxes  
Corrected for Changes in Retail Prices (Column 4, Table 18)  
1951-59

Year	(1) Retail Trade (Million Current Yuan)	(2) Official Retail Trade Price Index (1951 = 100)	(3) Corrected Retail Trade (Million Current Yuan)	(4) Corrected Consumer Money Income (Million Current Yuan)	(5) Column 4 Less Consumer Money Taxes (Million Current Yuan)	(6) Index of Column 5 (Previous Year = 100)
1951	22,030	100.0	22,030	25,516	19,260	
1952	25,280	99.9	25,305	28,789	20,666	107.3
1953	30,150	103.1	29,243	33,399	22,745	110.1
1954	33,310	105.4	31,603	36,963	24,780	108.9
1955	35,620	106.2	33,540	39,008	26,671	107.6
1956	42,400	106.2	39,925	46,239	31,803	119.2
1957	44,720	108.5	41,217	48,002	32,535	102.3
1958	51,800	108.2	47,874	57,117	38,125	117.2
1959	60,300	108.2	55,730	66,469	42,661	111.9

The net increase in consumer money income that may be attributed to annual additions to the urban labor force was estimated as follows:

	(1)	(2)	(3)	(4)	(5)
Year	Increase in Number of Urban Workers (Thousand)	Average Annual Wage (Current Yuan)	Estimated Average Annual Money Income per Capita in Rural Areas (Current Yuan)	Column 2 Less Column 3	Column 1 Multiplied by Column 4 (Million Current Yuan)
1953	2,450	496	30	466	1,142
1954	550	519	35	484	266
1955	270	534	35	499	135
1956	5,150	610	40	570	2,936
1957	280	637	40	597	167
1958	7,500	656	45	611	4,582
Total					<u>9,228</u>

The figures in columns 1 and 2, above, were given directly by the Chinese, but figures in column 3 were estimated from rural money income and rural population. <sup>87/</sup> This procedure assumes that additions to the urban labor force originated from rural areas and/or had previous per capita money income of the amounts shown in column 3. The net increase in money income of each of the added workers is indicated by the amounts in column 4. The total increase in money income attributed to additions to the urban labor force was thus estimated to be 9,228 million yuan. The increase in total personal money income from 1953 to 1958 was 26,737 million yuan (from Table 14), and the proportion of the total accounted for by additions to the urban labor force was 34.5 percent.

V. Notes to Table 19 (Communist China: Effect of Tax Increases  
on Retail Prices, 1952-59)\*

The calculations required to obtain the figures in Table 19 are shown in Table 29.\*\*

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\* P. 56, above.

\*\* Table 29 follows on p. 109.

Table 29  
Communist China: Derivation of Estimate of Effect of Tax Increases  
on Retail Prices (as Shown in Table 19)  
1951-59

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Year	Total Retail Sales <u>a/</u> (Million Current Yuan)	Taxes on Retail Sales <u>b/</u> (Million Current Yuan)	Total Retail Sales Less Taxes (Million Current Yuan)	Increase in Column 3 over Previous Year (Percent)	Column 4 Plus 1 Multiplied by Column 2 <u>c/</u> (Million Current Yuan)	Column 2 Minus Column 5 <u>d/</u> (Million Current Yuan)	Column 6 Divided by Column 1 <u>e/</u>	Official Chinese Retail Price Index Annual Increase (Percent)
1951	22,030	5,789	16,241					
1952	25,280	7,613	17,667	8.8	6,298	1,315	0.052	-0.1
1953	30,150	10,053	20,097	13.8	8,664	1,389	0.046	3.2
1954	33,310	11,645	21,665	7.8	10,837	808	0.024	2.2
1955	35,620	11,872	23,748	9.6	12,763	-891	-0.025	0.8
1956	42,400	13,969	28,431	19.7	14,211	-242	-0.006	0
1957	44,720	15,090	29,630	4.2	14,556	534	0.012	2.2
1958	51,800	18,566	33,234	12.2	16,931	1,635	0.032	-0.3
1959	60,300	23,378	36,922	11.1	20,627	2,751	0.046	0

a. From Table 14 (p. 49, above), item 1.

b. From Table 16 (p. 52, above). All taxes from Table 16 except direct taxes on consumers appear in final retail prices.

c. This column represents the figures that would have obtained for tax collections if their increases each year had been proportionate to the increases in retail sales less taxes, as shown in column 3. The percentage figures of column 4 were applied to the previous year's figures of column 2.

d. The figures in this column represent the more-than-proportionate changes in taxes that would be expected to cause increases (or decreases) in retail prices.

e. These figures represent the changes in retail prices that might have been expected as a result of the more-than-proportionate changes in commodity taxes. Some of the differences between figures in columns 7 and 8 may well be the result of errors of estimating tax magnitudes, but the figures suggest that increases in retail prices may have been caused primarily by increased taxes.

VI. Notes to Table 21 (Communist China, USSR, US: Average Rate  
of Consumer Money Taxation and Personal Money Income per  
Capita, Selected Years, 1951-59)\*

The tax ratios for China are from Table 17.\*\* The tax ratios for the USSR are from estimates by Holzman. 88/ Of several alternative estimates made by Holzman, the ones chosen for this comparison were those which most nearly compared in tax and money components to the estimates made for China. Tax ratios for the US were estimated by making them as nearly comparable as possible to the Chinese and Soviet tax ratios -- by including in US taxes on consumers one-half of US corporate profits before taxes (approximately the same percentage of total state enterprise profits included in the Chinese estimates and representing the major difference between conventional tax collections in the US and in China and the USSR).

The per capita money income figures for China were based on total money income of consumers (from Table 14\*\*\*) and Chinese population figures at mid-year. The yuan figures of per capita income were converted into US dollars at the official exchange rate of 2.46 yuan to US \$1. The Soviet figures are from Holzman's estimates of Soviet consumer money income, converted from rubles to dollars at the tourist exchange rate of 10 old (pre-1961) rubles to US \$1.

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\* P. 58, above.  
\*\* P. 53, above.  
\*\*\* P. 49, above.

APPENDIX B

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