

CHINA KNOWLEDGE SERIES

THE SOCIALIST
TRANSFORMATION
OF THE NATIONAL ECONOMY
IN CHINA

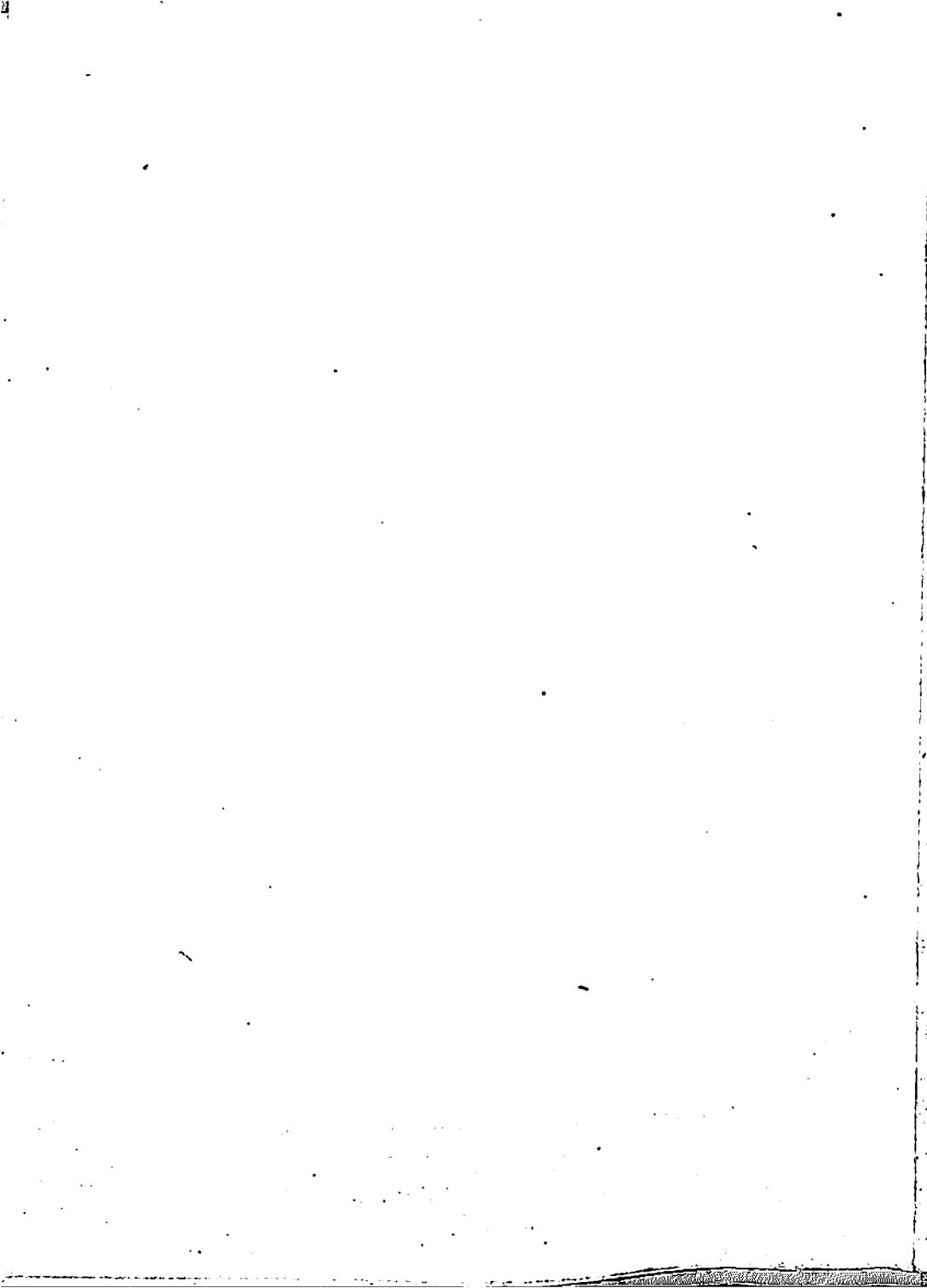
HSUEH MU-CHIAO, SU HSING
AND LIN TSE-LI



FOREIGN LANGUAGES PRESS
PEKING

The author describes in four chapters the development of the socialist state sector of the economy, the socialist transformation of the sector of individual ownership of peasants and handicraftsmen and the capitalist sector, and the stimulating effect this had upon the national economy after the fundamental completion of the transformation.

This book gives a comprehensive account of the Chinese economy during the period of transition and an authentic record of the socialist transformation of the national economy and socialist construction. It lays stress on the explanation of the Party's lines and policies, showing, from the theoretical point of view, how the Chinese Communist Party linked the universal truth of Marxism-Leninism with the practice of the Chinese revolution and achieved great successes in the transformation of the national economy and socialist construction.



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Introduction

On October 1, 1949 the People's Republic of China embracing one quarter of the world's total population was established in the East. After Russia's great October Socialist Revolution this event constituted another important turning point in the history of the world. It immensely strengthened the forces of the socialist camp and weakened those of imperialism.

The founding of the People's Republic marked the virtual end of the bourgeois-democratic revolution and the beginning of the proletarian socialist revolution in China. The era of semi-colonialism and semi-feudalism was ended for ever. The Chinese working people have now entered the great new era of socialist revolution and construction.

For the past one hundred years China had been in semi-colonial and semi-feudal bondage. For a long period of time the imperialists had controlled the main arteries of China's economic life, transforming her into a market where they scrambled for raw materials, dumped their commodities, and to which they exported their capital.

Before the War of Resistance to Japanese Aggression (1937-45) the imperialists monopolized 70 per cent of China's coal production, over 95 per cent of her iron, 73 per cent of her shipping tonnage (83.8 per cent of this being ocean-going), and by far the greater part of her

public utilities. They also exercised control over her banking, insurance and foreign trade. Taking advantage of their various special privileges, they extorted enormous profits from China. Before World War II China was a battle-ground where the imperialist nations—Britain, Japan, the United States, Germany and France—haggled over spheres of influence and waged sharp struggles against each other. During the war, Japan carried out unbridled armed aggression against China, crowded out Britain, the U.S. and the others and seized by force most of China's markets and resources. With the victory over Japan the U.S. imperialists stepped into the shoes of the Japanese, thus becoming the major aggressive force in China.

After the invasion of foreign capital and the development of Chinese capitalism the feudal economic structure was impaired to some degree. But just as Mao Tse-tung wrote in 1939: “. . . The exploitation of the peasantry by the landlord class—the basis of feudal exploitation—not only remains intact but is linked with the exploitation of comprador and usurer capital, and holds an obviously dominant position in China's social-economic life.”¹ In the countryside the landlords and rich peasants, who numbered less than 10 per cent of the population, owned over 70 per cent of all arable land, but middle peasants, poor peasants and farm labourers, who numbered 90 per cent of the population, owned less than 30 per cent of the total amount of such land. The peasants had to give about 50 per cent of what they produced to the landlords for the land they rented. For all their toil

¹Mao Tse-tung, *Selected Works*, Lawrence and Wishart, London, 1954, Vol. III, p. 80.

through the year they had insufficient food and clothing for themselves.

The capitalist economy of old China consisted of two different sections. One was national capitalism — consisting mainly of medium and small enterprises. These were connected in a thousand and one ways with imperialism and feudalism but, as they were oppressed and preyed upon by imperialism and at the same time fettered by feudalism, constant contradictions existed between them and both imperialism and feudalism. The national bourgeoisie, who controlled this section of the national economy, was comparatively weak, both politically and economically. The other section was feudal, comprador, state-monopoly capitalism, i.e. bureaucrat capitalism. It was represented by the "Four Big Families" — Chiang Kai-shek, T. V. Soong, H. H. Kung and the Chen Ko-fu and Chen Li-fu brothers. It was built up mainly during the twenty-odd years' rule of the Kuomintang reactionaries, who used their counter-revolutionary political power to ruthlessly exploit and plunder the people of the whole country. It was entirely dependent on foreign imperialism and linked with feudalism within the country. After the victory over Japan, when the reactionary Kuomintang government had taken over the properties in China of the imperialist countries — Japan, Germany and Italy — bureaucrat capitalism reached the height of its development, controlling the main arteries of the country's economy. This state-monopoly capitalism not only oppressed and exploited the workers and peasants but also strangled the growth of national industry and encroached upon the interests of the national bourgeoisie. Like imperialism and feudalism it was a great obstacle

to the development of the productive forces of society. Mao Tse-tung pointed out:

Aside from abolishing the special privileges of the imperialists in China the object of the new-democratic revolution is to end exploitation and oppression by the landlord class and bureaucrat-capitalist class (the big bourgeoisie) in the country, change the feudal and comprador relations of production, and release all productive forces from fetters.¹

The process of abolishing the special privileges of the imperialists in China and eliminating the feudal and comprador relations of production was in nature a bourgeois-democratic revolution. It was a combination of the national revolution against imperialism and the democratic revolution against feudal rule. But the democratic revolution of China was carried out after the victory of the great Russian October Socialist Revolution. The whole world had entered the era of proletarian revolution, and the socialist system was becoming stronger, while the capitalist world was sinking like the setting sun in the west. Furthermore, in China, as the national bourgeoisie had a dual political character — desiring to oppose imperialism, feudalism, and bureaucrat capitalism, while at the same time maintaining certain connections with them — they were constantly vacillating and prone to compromise. They were quite unable to bear the responsibility of leadership in the revolution and therefore it had to fall on the shoulders of the proletariat and its political party, the Communist Party, the most revolutionary and advanced political force in China. The

¹*The Present Situation and Our Tasks*, Chinese edition, Hsin-hua Bookstore, Peking, 1949, p. 27.

worker-peasant alliance, led by the working class, furnished the basic strength for this revolution. For this reason China's democratic revolution was no longer the old, general bourgeois-democratic type, but a new type, a people's democratic revolution led by the proletariat. It had therefore become a part of the world's proletarian revolution. The final result of this revolution was to lead China away from capitalism and towards the realization of socialism. Mao Tse-tung said in 1939:

... The whole Chinese revolutionary movement led by the Chinese Communist Party is a complete revolutionary movement embracing the two revolutionary stages, democratic and socialist, which are two revolutionary processes differing in character, and that the socialist stage can be reached only after the democratic stage is completed. The democratic revolution is the necessary preparation for the socialist revolution, and the socialist revolution is the inevitable trend of the democratic revolution. And the ultimate aim of all Communists is to strive for the final building of socialist society and communist society.¹

Mao Tse-tung's analysis of the nature and future of China's revolution stemmed from the unified Marxist-Leninist principles of uninterrupted revolution and its development by stages. He opposed not only the viewpoint of Rightist capitulation which meant stopping the revolution at the democratic stage, but also the viewpoint of "Leftist" adventurism which meant a jump over the stage of democratic revolution. He insisted that socialist factors (mainly the leadership of the proletariat) should be developed during the stage of democratic revolution so

¹Mao Tse-tung, *Selected Works*, op. cit., Vol. III, p. 101.

that the transition to socialism might be realized on the basis of the victory of the democratic revolution. He also insisted that the two stages of revolution should not be confused and that in general during the stage of democratic revolution no policy should be adopted that went beyond its limits. It was precisely by following the directives given by Mao Tse-tung that China's revolution was victorious.

From the founding of the Chinese People's Republic to the attainment of a socialist society is a period of transition from capitalism to socialism. At the beginning of this period, a people's democratic dictatorship led by the working class and based on the worker-peasant alliance, in other words a proletarian dictatorship, was established; all special privileges enjoyed by the imperialists in China were abolished; bureaucrat capital was confiscated, and a strong, socialist state sector of the national economy set up. Through land reform the system of feudal landownership by the landlord class was changed into that of peasant ownership. All this radically changed China's economic and social structure.

During the early period of transition the national economy consisted of three main sectors, i.e. the socialist state sector, the sector of individual ownership of the peasants and handicraftsmen, and the capitalist sector. Connected with these were the three basic classes, i.e. the working class, the peasantry and the urban petty bourgeoisie and the bourgeoisie. Besides these three main sectors there were two others, i.e. the semi-socialist co-operative sector (there were very few co-operatives of a socialist nature in those days) and state-capitalist sector, both being transitional in nature. Of these five, the socialist state sector occupied a leading position. The

economic structure and class relationships of the transition period determined its main contradiction, i.e. the contradiction between taking the path of socialism and that of capitalism, or a struggle between the proletariat and the bourgeoisie to decide "who will win."

Lenin once said in the early period of Russia's October Socialist Revolution:

Theoretically, there can be no doubt that between capitalism and Communism there lies a definite transition period. It cannot but combine the features and properties of both these forms of social economy. This transition period cannot but be a period of struggle between moribund capitalism and nascent Communism — or, in other words, between capitalism which has been defeated but not destroyed and Communism which has been born but which is still very feeble.¹

These words of Lenin's were not only applicable to the Russia of his time but can also be applied to China or to any other country when it passes from capitalism to socialism.

The main task in the period of transition from capitalism to socialism is to carry out socialist revolution and socialist construction.

According to the experience of the Soviet Union and other socialist countries, during the process of socialist revolution and construction, all nations must observe the general laws applicable to all countries going along the path of socialism in spite of the great variety of historic national peculiarities and traditions. The Declaration of the Meeting of Representatives of the Communist and

¹V. I. Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 277.

Workers' Parties of the Socialist Countries held in Moscow in November 1957 pointed out clearly that these laws are as follows:

Guidance of the working masses by the working class, the core of which is the Marxist-Leninist Party, in effecting a proletarian revolution in one form or another and establishing one form or other of the dictatorship of the proletariat; the alliance of the working class and the bulk of the peasantry and other sections of the working people; the abolition of capitalist ownership and the establishment of public ownership of the basic means of production; gradual socialist reconstruction of agriculture; planned development of the national economy aimed at building socialism and communism, at raising the standard of living of the working people; the carrying out of the socialist revolution in the sphere of ideology and culture and the creation of a numerous intelligentsia devoted to the working class, the working people and the cause of socialism; the abolition of national oppression and the establishment of equality and fraternal friendship between the peoples; defence of the achievements of socialism against attacks by external and internal enemies; solidarity of the working class of the country in question with the working class of other countries, that is, proletarian internationalism.¹

These universal truths have shown the proletariat of all countries the broad road leading to socialism. Whoever exaggerates national peculiarities and ignores these general laws will certainly fall into the quagmire of revisionism.

¹*Hsinhua News Agency Release, November 22, 1957.*

The "Programme of the League of Communists of Yugoslavia," put forward by the Seventh Congress of this league, held in April 1958, concentrated its attack on the general laws of socialist revolution and construction enunciated in the Moscow Declaration. This out-and-out revisionist programme shows that members of the leading group of Yugoslavia have degenerated, politically and ideologically, into renegades of the working class and become the faithful lackeys of imperialism. Consequently, they have been criticized and denounced by all Marxist-Leninist parties throughout the world.

To recognize that there are general laws governing the socialist revolution and construction for all countries does not mean that the Communist or Workers' Party of any country should mechanically copy the policies and tactics of the Communist Party of another country without considering the concrete historical conditions of its own. Lenin once stated:

All nations will reach socialism; this is inevitable. But not all nations will reach socialism in the same way; each will introduce a special feature in the form of democracy it adopts, in the form of the proletarian dictatorship, and in the rate at which it carries out the reconstruction of the various phases of social life.¹

Political and economic development being uneven during the era of imperialism, the social and economic conditions of various countries were by no means the same prior to victory in the proletarian revolution. Some of them had a capitalist society while others had a colonial or semi-colonial and semi-feudal society. Con-

¹V. I. Lenin, *Collected Works*, International Publishers, New York, 1942, Vol. XIX, p. 256.

ditions were also varied and complicated even in societies of the same type, were they capitalist, colonial, or semi-colonial. In the course of their revolution the proletariat of some countries seized state power from the hands of their own bourgeoisie, while in others they wrested power mainly from the hands of foreign aggressors; some waged civil war while others did not. Besides, it was in different international situations that these countries passed through their transition periods. One country gained its victory in socialist revolution on the strength of its own efforts alone. In building socialism and waging struggles against imperialism, it had the support of the working class of the whole world but there was then no other socialist country which could help it. Some countries, however, carried out such tasks in an era when victory in socialist revolution in many countries had already been gained and socialism had become a world system. Therefore, they received aid from other fraternal socialist countries. Furthermore, each country had its own characteristics in history, cultural tradition, geography, population, etc. The Moscow Declaration stated:

The Communist and Workers' Parties of the socialist countries should firmly adhere to the principle of combining the universal Marxist-Leninist truth with the specific revolutionary practice in their countries, creatively apply the general laws governing the socialist revolution and socialist construction in accordance with the concrete conditions of their countries, learn from each other and share experience.¹

¹Hsinhua News Agency Release, *op. cit.*

A country or nation is sure to commit the mistake of doctrinairism if it does not pay enough attention to its own specific characteristics but mechanically copies the methods used by other countries.

Like all other Marxist-Leninist political parties of the world, the Chinese Communist Party has always looked upon the October Revolution as its guiding light. The general laws of socialist revolution and construction have been, are, and will be its guide to action. As Mao Tse-tung said:

It is precisely by taking the path of the October Socialist Revolution, that we Chinese people have scored our present victories and achievements. The Chinese people have always considered their revolution to be a continuation of the great October Socialist Revolution and have looked upon this fact as a great honour.¹

On another occasion he said:

The Chinese revolution has its own national characteristics and it is entirely necessary to take these into consideration. But in our own revolution and socialist construction we have made full use of the rich experience of the Communist Party and the people of the Soviet Union.²

To apply the general laws of socialist revolution and construction and to learn from the experience of the

¹Quoted from Chairman Mao Tse-tung's speech at a banquet given in honour of President Voroshilov on April 17, 1957.

²Chairman Mao Tse-tung's speech at a joint meeting of the Soviet of the Union and the Soviet of Nationalities of the Supreme Soviet of the U.S.S.R. held in Moscow on November 6, 1957 in celebration of the fortieth anniversary of the great October Socialist Revolution, *People's China*, No. 23, 1957, p. 6.

Soviet Union, it is necessary to have a correct guiding principle which is to combine the universal truth of Marxism-Leninism with the concrete practice of China's revolution. The Chinese Communist Party's experience gained in more than thirty years proves that so long as it follows this principle the revolution will develop and triumph, while, on the contrary, if it deviates from it the revolution will suffer certain setbacks and defeats. In this respect Mao Tse-tung furnishes the most outstanding example of a leader who combines the universal truth of Marxism-Leninism with the concrete practice of China's revolution, and the spirit of strict adherence to principles with the spirit of versatile creativeness.

From the political standpoint, state power during the transition period in China is a people's democratic dictatorship under the leadership of the working class and with a worker-peasant alliance as its basis. The functions of this dictatorship are: first, to curb, within the country, the reactionary classes, the reactionaries and exploiters who offer resistance to socialist revolution and the saboteurs of socialist construction; and secondly, to defend the country against possible aggression and subversive activities carried out by foreign enemies, so that the entire people can carry on their peaceful work of building China into a socialist country possessing modern industry, agriculture, science and culture. Thus the people's democratic dictatorship is in essence a proletarian dictatorship. It is, in its basic nature, the same as the state power of all countries which are passing through a transition from capitalism to socialism. But China's state power has adopted its own form and characteristics. Since the founding of the People's Republic, the Chinese national bourgeoisie and many leading persons of its polit-

ical parties and groups have participated in the work of the government, which is organized on the principle of proletarian dictatorship, and continued to maintain their political alliance with the working class and the Communist Party for the cause of socialism. In this respect, the conditions in China are different from those in the Soviet Union after the October Socialist Revolution. The main reason for the difference is that the Chinese bourgeoisie has a dual character both during the stage of democratic revolution and that of socialist revolution. Mao Tse-tung said:

In the years of the bourgeois-democratic revolution, there was a revolutionary side to their character; there was also a tendency to compromise with the enemy, this was the other side. In the period of the socialist revolution, exploitation of the working class to make profits is one side, while support of the Constitution and willingness to accept socialist transformation is the other.¹

Thus, so long as the leading position of the working class is ensured, it is more profitable for the proletariat and the socialist revolution to preserve the political rights of the bourgeoisie than to deprive them of these. Lenin once stated: "... The question of depriving the exploiters of the franchise is *purely a Russian* question, and not a question of the dictatorship of the proletariat in general."² Under the concrete conditions existing in China, it involves no violation of the principle of prole-

¹Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, p. 10.

²V. I. Lenin, *Selected Works in Two Volumes*, op. cit., Vol. II, Part 2, p. 63.

tarian dictatorship for the working class to maintain a certain form of political alliance with the national bourgeoisie during the stage of socialist revolution, on condition that they accept socialist transformation. It means not only a strict adherence to the principle of Marxism-Leninism but also an enrichment and development of the theory of proletarian dictatorship in the practice of socialist revolution.

In the economic sphere, the socialist transformation of the entire national economy must be carried out in this transition period, thus changing the composite economy into a homogenous socialist one. This task is essentially the same as that confronting other socialist countries during their transition periods. But even here China has her own characteristics. First, China is an economically backward country. To build up socialism she must develop industry, first of all, heavy industry, so that she may become a country with modern industry, agriculture, science, and culture. This requires a comparatively long period. During this period, even when the socialist revolution in the ownership of the means of production has been practically completed, concentrated and continuous efforts must be made to carry out socialist construction so as to gradually realize technical and cultural revolutions and to lay a material and technical foundation for socialism. Secondly, during the transition the working class of China has as its allies not only the peasants and urban petty bourgeoisie but also the national bourgeoisie. For this reason, the method of peaceful transformation is applied not only to the sector of individual ownership of the peasants and handicraftsmen but also to the capitalist sector. In the latter's case the method of "buying off" which Marx once spoke of has

been used. In the course of socialist transformation many different transitional forms have been adopted.

The historical process of socialist construction and transformation in China is roughly as follows:

After the nation-wide victory of the people's democratic revolution in 1949, China entered the era of socialist revolution. During the period of economic rehabilitation the main tasks were to establish the leadership of the socialist state sector of the economy over the other sectors, to speed up the rehabilitation and development of the national economy, and to strive for a fundamental improvement of financial and economic conditions. At that time the conditions for carrying out planned national economic construction on a large scale were still to be created, and the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce had just begun. Externally, the war to resist U.S. aggression and aid Korea was being waged, and, internally, vigorous mass political movements of land reform, suppression of counter-revolutionaries, the *san fan*¹ and *wu fan*,² and ideological remoulding were being carried out. These movements were of great importance to subsequent large-scale socialist construction and transformation. But for them it would have been impossible to win a speedy victory in socialist transformation.

By 1952 financial and economic conditions in China had basically improved. Having completed the rehabili-

¹The movement against corruption, waste and bureaucracy among government employees.

²The movement against bribery of government workers, tax evasion, theft of state property, cheating on government contracts, and stealing economic information for private speculation among the private industrialists and businessmen.

tation of the national economy, the Central Committee of the Chinese Communist Party laid down the general line of the Party for the period of transition. This was: to gradually realize over a fairly long period of time socialist industrialization of the country and socialist transformation of agriculture, handicrafts and capitalist industry and commerce. Guided by the Party's general line, a beacon light for all our work, in 1953 the First Five-Year Plan for the development of the national economy began to be implemented, and the socialist transformation of agriculture, handicrafts and capitalist industry and commerce speeded up. After some three years of endeavour a great upsurge in agricultural co-operation quickly appeared in all parts of the country in the second half of 1955. This in turn brought about another upsurge in socialist transformation of handicrafts and capitalist industry and commerce. By 1956 socialist revolution in the ownership of the means of production was basically completed. In 1957 the First Five-Year Plan of socialist construction was successfully fulfilled, thus laying a preliminary foundation for the socialist industrialization of the country.

The basic completion of the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce marked a decisive victory for the socialist revolution on the economic front. But as there were still remnants of the overthrown landlord class and comprador bourgeoisie, as the bourgeois elements had to be further remoulded, and as the remoulding of the petty bourgeoisie was not yet completed, class struggle, therefore, had to be continued. To consolidate the socialist system, socialist revolution had still to be carried out on the political and ideological fronts. The rectifica-

tion campaign and anti-Rightist struggle in 1957 was a great socialist revolution on these fronts. The victory scored in this revolutionary struggle brought about marked changes in the relative class strength in China and greatly enhanced the socialist consciousness of the people. On the basis of this achievement the Central Committee of the Chinese Communist Party and Mao Tse-tung put forward the general line of going all out, aiming high, and achieving greater, quicker, better and more economical results to build socialism. Under the guidance and inspiration of this general line the Chinese people, high in spirit, strong in morale and firm in determination, have scored and are still scoring brilliant successes in their big leaps forward in socialist construction.

The great victory China has won in socialist revolution and construction is a victory of Marxism-Leninism. The victory is one of linking the universal truth of Marxism-Leninism with the concrete practice of revolution in China, i.e. of the teachings of Mao Tse-tung.

In writing this book our aim is to describe briefly how the Chinese Communist Party and Mao Tse-tung, basing themselves on the policy of linking the universal truth of Marxism-Leninism with the concrete practice of revolution in China, established a powerful socialist state economy and how they led the people of the whole country to win a great victory in socialist revolution, thus basically completing the socialist transformation of the entire national economy, and what great and far-reaching influence the basic completion of socialist transformation has had on the development of the productive forces in the entire Chinese society.

CHAPTER ONE

THE DEVELOPMENT OF THE SOCIALIST STATE SECTOR OF THE NATIONAL ECONOMY

1. The Birth of the Socialist State Sector

When China entered upon the first stage of the transition from capitalism to socialism, there were five different sectors within her economy, namely, the socialist state sector, the co-operative sector, the state-capitalist sector, the sector of individual ownership of the peasants and handicraftsmen and the capitalist sector. Of these the socialist state sector played the leading role. The tasks of the Party and government during the transition period were to develop the socialist state sector rapidly and on that basis carry out the socialist transformation of the sector of individual ownership of the peasants and handicraftsmen as well as the capitalist sector step by step.

Based on ownership by the whole people, the socialist state sector is, in general, built up through the nationalization of bourgeois property by the proletarian state in the course of the socialist revolution. But owing to varied historical conditions, each country has its special features in the concrete process of building up its socialist state economy.

Old China was a semi-colonial and semi-feudal country. Its democratic revolution was led by the proletariat in direct preparation for the socialist revolution. At the stage of the democratic revolution, the revolutionary state power led by the working class came into existence as a political force, and, economically, there were some socialist elements, i.e. the state sector (or publicly-owned property) and the co-operative sector collectively owned by the working people. The embryo of the state sector in China, therefore, emerged not as a result of the proletarian socialist revolution, but as an outcome of the people's democratic revolution led by the proletariat.

The State Sector in the Revolutionary Bases. China's democratic revolution passed through a period of protracted revolutionary wars. Her working class did not secure nationwide state power at one stroke. Instead, it first established revolutionary bases and revolutionary state power in the countryside step by step, and then brought about an encirclement of the cities, finally taking them. In order to defeat the onslaughts of domestic and foreign enemies, break the enemy's economic blockade and ensure the victory of the revolutionary wars, the Party started to develop the state sector of the economy during the period of the Second Revolutionary Civil War (1927-36). Analysing the economic structure of the revolutionary bases, Mao Tse-tung pointed out:

At present, our national economy is made up of three sectors: state enterprises, co-operative enterprises and private enterprises.

State enterprises are confined at present to what is possible and essential. The state-operated industrial

and commercial enterprises have already started to grow; their future is unlimited.¹

He outlined the principles of economic policy then as follows:

... To consolidate the economic alliance of the workers and peasants, to ensure the hegemony of the proletariat over the peasantry, and to strive for the hegemony of state enterprises over private enterprises so as to create the prerequisites for the future development into socialism.²

During the War of Resistance to Japanese Aggression and the subsequent Third Revolutionary Civil War, the state sector in the liberated areas was further expanded under the guidance of the correct line which was "securing supplies through economic development" put forward by the Party and Mao Tse-tung.

The state sector in the revolutionary bases and liberated areas served the revolutionary war. Because in these areas the scattered and backward small-peasant production predominated, productivity was extremely low, and under the conditions of protracted war and enemy economic blockade, contradictions existed between securing supplies for the war and ensuring the livelihood of the people. Financially, it was impossible to depend solely upon the grain and taxes collected from the people. It was necessary for the troops and cadres to build up the state sector of the economy. In other words, they not only took what was needed from the people but also obtained supplies from what they produced themselves.

¹Mao Tse-tung, *Selected Works, op. cit.*, Vol. I, p. 144.

²*Ibid.*, p. 141.

The state sector in the liberated areas was, therefore, different from the state sector after the victory of the people's democratic revolution. The former, which started from scratch and grew parallel with the development of the revolution itself, was mainly built up by the soldiers, cadres and other working people, instead of mainly by confiscating the property of the bureaucrat-capitalists. It was only during the Third Revolutionary Civil War when many medium-sized and small cities and some mining areas were liberated, that the socialist state sector was expanded, through the confiscation of some of the property of the Japanese imperialists and bureaucrat capitalists.

The state sector in the liberated areas included industry, agriculture, communications and transport, commerce and banking. State industry, which consisted mainly of small factories and handicraft workshops, turned out some military supplies and daily necessities for civilian use. There were then both heavy and light industries. In 1945, for instance, the Shensi-Kansu-Ningsia Border Region did its own iron-smelting and oil-refining. It had machine-shops, as well as factories for making glass, pottery, porcelain, weapons, munitions and military supplies. The textile industry was also quite well developed.

During the War of Liberation the liberated areas expanded and a part of the property formerly seized by the Japanese imperialists was recaptured. In some areas, in Northeast China for instance, there were some modern industrial and mining enterprises. State farming was mainly carried on by the troops and cadres. Except for the Shensi-Kansu-Ningsia Border Region where there were remarkable achievements in reclamation

during the War of Resistance, there was little development in other areas due to the intensity of the war.

Commerce and banking played a particularly significant part in the state sector. This was because the economic conditions in the revolutionary bases and liberated areas made it necessary to wage economic struggles with the domestic and foreign enemies through commercial transactions and the banks. The liberated areas were then mainly situated in the countryside where agriculture and handicrafts were predominant. The peasants and handicraftsmen demanded commodity exchange and economic contacts with the cities in varying degrees. A big portion of manufactured articles needed by the huge armies and large numbers of cadres had to be obtained from the enemy-controlled cities through trade. In spite of the fact that the enemy forces occupied the cities and controlled the large industrial enterprises, they relied on the vast countryside in the liberated areas for the raw materials and grain they needed. Thus, the exchange of the liberated areas' agricultural products for the manufactured goods of the enemy-held areas was bound to result in an acute economic struggle between the two. The invaders attempted to cut off the supply of industrial products to the liberated areas by imposing an economic blockade. They also tried to shift the burden of vicious currency inflation onto the liberated areas by predatory purchase of farm produce with depreciated banknotes. Under the circumstances, these areas had to build up centralized, powerful state commercial enterprises and state banks, not only to break the enemy's economic blockade but to enforce a counter-blockade against the enemy.

The primary tasks of the state commercial enterprises at that time were to gain favourable exchanges with the enemy-controlled areas by forcing them to exchange their manufactured articles needed by the liberated areas for the agricultural products they needed; to protect the production of the liberated areas and support the struggle over the currency question. Within these areas the main tasks of the state commercial enterprises were to adjust demand and supply, stabilize commodity prices, ensure supplies and assist the masses in production by putting a tremendous amount of material under the centralized control of the government. The guiding principle of the trade policy then was: controlled trade with the outside and free trade inside the areas. Controlled trade, however, did not mean that everything was placed under state monopoly and centralized marketing. This only applied to a few important things while ordinary ones were allowed to be sold free. On the other hand, free trade did not mean that trading should be allowed to take its own course without any restriction, but that it was necessary to observe the laws of seasonal market demand and supply and adopt needed and practical political and economic measures to adjust the demand and supply and stabilize commodity prices. The experience of the revolutionary bases and liberated areas proved the complete correctness of the Party's trade policy. It ensured not only the leadership of state enterprises over private ones but also continuous and impressive successes in economic struggles with the enemy.

The principal tasks of the banks in the liberated areas were: externally, to protect the production and livelihood of the people from the harmful influence of cur-

rency inflation in the enemy-controlled areas and procure commodities from the latter through struggles over currency, and internally, to ensure supplies to the armed forces and cadres, grant loans to help the people in production and adjust rural finance. To achieve this, it was necessary to issue banknotes independently and oust the currency of the enemy area from the market; attain, by and large, a balance of revenue and expenditure; obtain control of a certain amount of important material reserve as the main security for the banknote issue; and carefully and properly control the issuance of currency in the light of the varied seasonal demands. Because the Party and the government gradually came to understand the objective economic laws and worked out a correct monetary and banking policy, the value of the notes and commodity prices in the revolutionary and liberated areas were, as a whole, much more stable than in the areas under Japanese occupation and Kuomintang control. At the time of the Japanese surrender, for instance, the exchange rates between the Peihai notes (in the liberated areas of Shantung Province) and "legal tender" in Kuomintang-controlled areas and between the notes in the southern Hopei liberated area and "legal tender" were one for five and one for two respectively. By August 1948, three years later, these rates were one for 800 and one for 1,000. This was a sharp contrast in commodity prices between two areas under two different social systems.

Naturally, to say that commerce and banking played a significant part does not deny the importance of the development of production. In fact it was not feasible to depend upon commerce and banking alone to build the material foundation for the revolutionary wars. It

really relied, in the last analysis, upon the growth of production.

The state sector of the economy grew fast in the revolutionary and liberated areas. In spite of its small proportion in the national economy as a whole at that time, it was the most progressive form. It created the important prerequisites for the socialist revolution and construction in the accumulation of experience and in the training of cadres.

Mao Tse-tung said in 1942:

During the last five years since 1938 the public economic enterprises have made tremendous progress. This achievement is invaluable to us as well as to our nation. That is to say we have built a new model of state economy.¹

He also said:

What deserves special mention is that we have gained experience in running economic undertakings. This is a priceless treasure impossible to calculate in figures.²

The all-round practical experience gained in the economic work of the liberated areas included the experience accumulated over long years in leading agricultural production, in the management of industries, banking and control of the market. It also included the experience gained after liberation of some medium-sized and small cities in enforcing the policies towards the capitalist sector, i.e. the policies of "taking into account both public and private interests and benefiting both labour

¹Mao Tse-tung, *Economic and Financial Problems*, Chinese ed., Northeast Press, p. 77.

²*Ibid.*, p. 138.

and capital." These, together with other experiences in economic affairs, are, in the true sense of the word, "priceless treasures" which played an important part in guiding the entire national economy after the liberation of the whole country, especially in building and developing the socialist state sector. A group of personnel trained in the course of handling economic work became the leading core in state economic enterprises after liberation. Without these cadres there would have been tremendous difficulties in managing and developing several thousand large-scale state enterprises after the victory of the democratic revolution. In addition, state enterprises established in the liberated areas, especially the trading companies and banks, also made their influence felt after liberation. The state bank, the People's Bank of China, for example, developed on the foundation laid by the banks established in the various liberated areas and the state trading organs also developed mainly on the basis of those built in these areas.

The Confiscation of Bureaucrat Capital and Expansion of the Socialist State Sector. The large-scale building and development of China's state sector of the economy began with the confiscation of all bureaucrat-capitalist enterprises around the time of the founding of the People's Republic.

Bureaucrat-capitalist enterprises were chiefly state-monopolized capitalist enterprises of a comprador and feudal character which were controlled by the bureaucrat-bourgeois clique headed by Chiang Kai-shek. In this connection, Mao Tse-tung said:

During the twenty years when they were in power, the "Four Big Families" of Chiang Kai-shek, T. V.

Soong, H. H. Kung and the Chen Ko-fu and Chen Li-fu brothers have amassed in their hands a huge sum of between 10,000 and 20,000 million U.S. dollars by which they established monopoly control over the vital economic arteries of the whole nation. Combined with the political power of the state this monopoly capital became state-monopoly capitalism. Closely connected with foreign imperialism, the landlord class and rich peasants of the old type at home, it became comprador-feudal state-monopoly capitalism.¹

This type of capitalism did not grow mainly through increased production, but through open plunder with the aid of the state machine, through exploiting the labouring people and crowding out and swallowing up the medium-sized and small capitalist enterprises by means of speculation, currency inflation and various measures of economic control. Like imperialism and feudalism, it seriously impeded the growth of the productive forces.

Bureaucrat capitalism came into existence prior to the War of Resistance to Japanese Aggression. It reached the peak of its development after victory in the war when the reactionary Kuomintang government took over the Japanese, German and Italian imperialists' enterprises in China. In 1948, bureaucrat capital accounted for about two-thirds of the total industrial capital in the Kuomintang-controlled areas. On the eve of liberation the National Resources Commission of the Kuomintang government controlled 90 per cent of the country's iron and steel output, 33 per cent of its coal, 67 per cent of its electric power, 45 per cent of its cement and all its pe-

¹*The Present Situation and Our Tasks*, Chinese ed., Hsinhua Bookstore, Peking, 1949, p. 27.

troleum and non-ferrous metals. Bureaucrat capital also controlled the nation's light industry. In 1947, the China Textile Industries, Incorporated alone possessed 37.6 per cent of the nation's total number of spindles and 60 per cent of its mechanized looms. In addition, bureaucrat capital had under its control the big banks, all the railways, highways and air lines, 44 per cent of shipping tonnage and a dozen or so monopoly trading corporations.

On the eve of the Russian October Revolution, Lenin said: "State-monopolistic capitalism is a complete *material* preparation for Socialism, the *threshold* of Socialism. . . ."¹ This was also true of state-monopoly capitalism in old China. Bureaucrat capital was not only highly concentrated but directly connected with the reactionary state machine. Under such circumstances, the bureaucrat-capitalist enterprises could be changed over in a short time from state-monopoly capitalism of a comprador and feudal character to the socialist state sector as soon as the dictatorship of the big landlord class and the big bourgeoisie was destroyed and replaced by the dictatorship of the proletariat.

The confiscation of these bureaucrat-capitalist enterprises was carried out on a nationwide scale following the victory of the people's revolution. In a short space of time, all the factories, mines, railways, shipping, postal services, banks, trading establishments and other enterprises formerly owned by the Kuomintang reactionary government and the bureaucrat bourgeoisie passed into the hands of the state led by the working class, which then controlled the vital economic arteries of the nation.

¹V. I. Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 1, p. 158.

Statistics show that by 1949 the state had confiscated 2,858 bureaucrat-capitalist industrial enterprises which employed more than 750,000 industrial workers. This confiscation led to the unprecedented growth of the socialist state sector. In 1949, socialist state industrial enterprises accounted for 41.3 per cent of the gross output value of China's large industries. The state sector also held 58 per cent of the country's electric power, 68 per cent of its coal output, 92 per cent of its pig iron, 97 per cent of its steel, 68 per cent of its cement and 53 per cent of its cotton yarn. Besides, it controlled all the railways in the country, most of the modern communications and transport, the far greater part of banking business and domestic and foreign trade.

Confiscation of bureaucrat-capitalist enterprises meant not only legally transforming their assets into those of the people's democratic state, but at the same time putting them under the direct management of the state so that they could produce in accordance with the needs of society. These bureaucrat-capitalist enterprises had their own managerial staff and management systems which were of a dual nature. These systems had originated from bureaucrat-capitalist production relations and served as an instrument for enslaving and oppressing the workers. Therefore, these aspects had to be eliminated. They also had certain other aspects which had to do with large-scale socialized production, such as the knowledge of production processes, technical management and accounting. These could be partly carried over, preserved, and adapted to the needs of the developing socialist sector. Some other parts, however, were unreasonable and had an adverse effect on the workers' production enthusiasm and on the development of the enterprises. They needed to

be reformed. But the reform of these systems was different from changing the ownership of the means of production. First of all, they had to be studied and thoroughly understood. Then, in accordance with the actual conditions and existing possibilities, the unreasonable systems were replaced with reasonable ones and the lower technical organizations were changed to more advanced ones. To carry out the reforms blindly in a disorderly way and without any plan would have dislocated production, circulation and the whole economy. That is why, in taking over the bureaucrat-capitalist enterprises, the measures adopted were essentially different from those in taking over the Kuomintang state organs. This was for the purpose of protecting production. These enterprises were preserved instead of destroyed. In other words, these old enterprises with their technical organization and production systems were taken over intact, placed under supervision, and then reformed step by step.

Facts proved that such methods in dealing with the structure of the old enterprises were beneficial both to the restoration and development of production. Generally speaking, there was no suspension of production or sabotage of equipment and installations during the process of taking over several thousand enterprises. But the inner structure which was allowed to remain intact gave rise to a series of problems. No fundamental change was brought about in the former systems of management which under bureaucrat capitalism had been used to oppress the workers, in the antagonistic relations between the managerial staff and workers and in the decadent organization and confused systems. As a result, the workers' labour enthusiasm and initiative were adversely affected, and the development of the productive forces

was impeded. Furthermore, no improvement was made in the system of management concerned with large-scale socialized production, in view of the requirements of socialist economy. Following the confiscation of bureaucrat-capitalist enterprises and their subsequent transformation into socialist state enterprises, internal democratic and production reforms were carried out in accordance with Mao Tse-tung's directive of "keeping up production by relying on the working class." All the problems left over were thus gradually solved.

The first point in the programme of these democratic reforms was the complete reorganization of the leadership of the enterprises. Instead of sending deputies from the army to supervise and exercise indirect control over them as had been done in the early days, the state appointed the leading personnel (a director or manager) to directly administer all their economic activities. The second was leading and mobilizing the workers to completely abolish the surviving portions of the systems of management inherited from bureaucrat capitalism that had been used to oppress and enslave them. Some of these were feudal survivals in the textile industry whereby the workers were searched when leaving the mills, that of gang-boss in the collieries, and that of the contractor-boss in the transport enterprises. In addition, steps were taken to rid the enterprises of the hidden counter-revolutionaries and remnants of the feudal forces. Thirdly, through criticism and self-criticism, relations between the managerial staff and workers were improved, and the capitalist ideology of not relying on the workers was criticized and overcome. Fourthly, democratic management of the enterprises was introduced by setting up factory management committees including the workers'

representatives. Fifthly, the initial readjustment of wages was made in accordance with the principle of "to each according to his work." As production increased, the living standards of the workers were gradually raised, so that the system of distribution was better suited to the ownership of the means of production. The adoption of these democratic reforms led to a higher class consciousness and productive enthusiasm on the part of the workers. The broad masses of workers and other employees, realizing that they were now their own masters, took the initiative in carrying out various emulation campaigns. They learned from each other and created many advanced methods, laying the foundation for production reforms.

Production reforms were a continuation of democratic reforms. They consisted chiefly of four aspects: First, perfecting the management of the enterprise, introducing a division of labour in a scientific way and instituting a responsible system in production and technical management. Secondly, carrying out planned management in accordance with socialist principles, and properly linking the plan of the enterprise with that of the state. Thirdly, working out reasonable production quotas, launching movements for selecting advanced workers in production and continuously setting up new quotas. Fourthly, taking an inventory of assets and making a reappraisal of capital to better the system of business accounting. Through these reforms the outmoded systems of production and technical management were gradually replaced by the new ones which were suited to the socialist relations of production. These reforms cleared away the remnants of capitalist system of management and consolidated socialist economic relations. The working masses tremendously

enhanced their class consciousness and production initiative. Production advanced by leaps and bounds.

In the course of confiscating the property of the bureaucrat capitalists, the enterprises of the United States, Britain, France and other imperialist countries in China remained intact. They were allowed to continue operation on condition that they abided by the laws of the Chinese Government. But these enterprises flourished in the past because of imperialist privileges. After the People's Government abolished these privileges, especially after the United States imposed the "embargo" on China, most of them were paralysed. Some of these foreign enterprises, like banks and firms, which could not continue their business, applied for permission to wind up while others discontinued their operation without asking for approval. Some voluntarily transferred their property to the Chinese Government. Still others were bought by the Chinese Government. In December 1950 the government of the United States abruptly took control of all Chinese public and private property in areas under U.S. jurisdiction. In order to prevent American imperialists from sabotaging the Chinese economy and endangering the interest of the Chinese people, the People's Government made an inventory of the assets of the American government and enterprises in China and issued a decree for their control. This practically eliminated all the aggressive U.S. economic forces in China. The imperialist enterprises which passed into the hands of the state later became part of the socialist state sector.

The Merits of Socialist State Economy. Socialist state economy is the most advanced type of economy. It is essentially different from the "state economy" controlled by the bureaucrat capitalists in old China and the "state

economy" in the capitalist countries. The latter two are state-monopoly capitalist economies, both aiming at securing maximum profits for the capitalist class. "State economy" of this kind does not prevent competition and anarchy in production. Still less can it harmonize class contradictions and be transmuted into "socialist economy," as publicized by certain members of the bourgeoisie and the revisionists. Thus, under the capitalist system state-monopoly capitalism, though preparing the material foundation for the socialist revolution, has nothing to do with socialist production relations.

Socialist state economy is based on the ownership of the means of production by the whole people. The means of production and products are possessed and controlled by the state on behalf of the whole people. Since China is a socialist country led by the working class and based on the alliance of workers and peasants, the basic aim of production and management of state enterprises can only be to secure the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society, instead of securing the maximum profits as capitalist enterprises do. State economy embraces thousands of large enterprises which are merged into a unified whole. This makes it possible for the state to utilize most fully and reasonably the nation's manpower and material and financial resources in accordance with the interests of the whole of society, as well as to guide the production and management of all such enterprises on the basis of a unified plan. It ensures a planned and balanced development of the national economy, avoiding destruction of the productive forces which characterizes capitalist economy, such as periodical crises, widespread unemploy-

ment, the shutting down of machines and waste of social wealth.

In the socialist state sector the entire working people become the owners of the means of production. An equal and co-operative relationship also exists among them. The products of the state sector are distributed by the state in a unified way in the interests of the whole people. Besides the products of state enterprises being used by the state for the purpose of meeting depreciation costs of the means of production, they are used partly for expanding production and meeting the other common needs of society. Another part is distributed to the workers and other employees to satisfy their material and cultural needs, in accordance with the principle of "to each according to his work." These parts are all used in the interests of the working people, the only difference being that the former serves their collective, long-term interests while the latter satisfies the immediate interests of individual workers. Under the socialist system the working people, to whom all the fruits of labour belong, will make a gradual improvement in their living conditions along with the development of production. That explains why this system best stimulates the productive initiative of the working people and ensures a high tempo of national economic development.

The production relations in socialist state enterprises are suited to the nature of the productive forces in modern industry. In this connection, Mao Tse-tung pointed out:

When we say that socialist relations of production are better suited than the old relations of production to the development of the productive forces, we mean

that the former permits the productive forces to develop at a speed unparalleled in the old society, so that production can expand steadily and the constantly growing needs of the people can be met step by step.¹

The merits of socialist state enterprises are manifested most clearly in the fast and steadily rising rate of productivity. A comparison between state and private enterprises will prove this. In 1952 the average output per worker in the state textile mills was 23.3 bales of cotton yarn while that in the private ones was 17.7 bales. In 1955 the former rose to 39.9 bales while the latter rose only to 22.7 bales.² The reason why state enterprises have a higher rate of labour productivity is because in state industrial enterprises the workers and other employees are keener to produce, the equipment and material resources are better utilized, and the division of labour and co-ordination can be most effectively carried out among the various economic departments.

2. The Establishment of the Hegemony of the State Sector

The Relation Between the State Sector and the Other Sectors. Before the completion of socialist transformation, the socialist state sector existed side by side with the capitalist sector and the sector of individual ownership of the peasants and handicraftsmen. It was natural

¹Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, p. 23.

²The reason the textile industry is taken as an example for comparison is because it is only in the textile industry that the private enterprises attained a comparatively high level of development.

that these different sectors should maintain economic connections with each other.

The state sector is socialized large-scale production based on modern technique. It cannot grow alone when production in all the different sectors, departments and enterprises of the national economy has been integrated into an interdependent social process. In order to carry on production, it is necessary for various enterprises within the state sector to supply one another with the means of production and consumer goods and to exchange a portion of their products for those of the other sectors. The capitalist sector is, in the main, also socialized large-scale production. It is the most developed form of commodity economy. It also depends upon the other sectors. Production of the sector of individual ownership (mainly of the peasants) exists in scattered household units. But since the great majority of them are small commodity producers, their production is to a large extent dependent upon either the capitalist or socialist state sector. In the whole course of social production, therefore, the capitalist sector and the sector of individual ownership are interdependent, just as these two sectors and the state sector are interdependent. Together they form a unified national economic entity. Nevertheless, since their social characteristics differ, all three sectors are interwoven with complex contradictions.

The principal contradiction in the economy of the transition period is the contradiction between socialist (state) and capitalist sectors. It manifests itself in two ways. Socialist production is developed to satisfy the needs of the whole people, while capitalist production is not aimed at this, but at obtaining high profits instead. Socialist production is developed in a planned way, while

capitalist production is characterized by competition and anarchy. These are two entirely different trends. In order that the development of social production may satisfy the needs of the whole people, the Party and government, in guiding the national economy, have to restrain the profit-seeking activities of the capitalists instead of allowing them free scope. In order that social production may be better planned, it is necessary to restrict the anarchy in capitalist production; capitalism should not have free play to disrupt the whole plans for the development of the national economy. This is a sharp, life-and-death struggle between the socialist (state) and capitalist sectors. Only by going through a series of sharp and complicated struggles can the socialist sector triumph over the capitalist sector and the socialist transformation of capitalist enterprises become a fact.

In the struggle between these two sectors of the economy, the peasant question is a fundamental factor. The great majority of the peasants are small commodity producers. In order to continue to produce and make a living, they must sell their products and obtain the necessary means of production and consumer goods in return. In the case of natural calamities or man-made misfortunes, they must borrow money to tide them over their difficulties in farming and daily life. This gives them no other choice but to depend on industry, commerce and the credit system. If the state sector can purchase the products of the peasants, supply them in time with the means of production and the consumer goods they need, extend them loans and solve the financial problems in the rural areas, then the sector of individual ownership of the peasants will be able to form an alliance with it in a common struggle against capitalist

speculation and usury. If the state sector cannot satisfy these needs, the individual peasants will have to rely on capitalist commerce and usurers. They will unite with the capitalist sector and the spontaneous tendency towards capitalism will be developed in the countryside. In a country like China where small-peasant production is predominant the answers to the questions — “Who controls the rural position?” and “With whom will the peasants go?” — eventually become an important factor in determining the outcome of the struggle between the socialist and capitalist sectors. Either the socialist sector defeats capitalism by uniting with the sector of individual ownership (mainly of individual peasants), and leading the peasants along the path of socialist co-operation, or the capitalist sector defeats socialism by uniting with the individual sector and allowing the capitalist forces to run riot. There is no middle road.

There is no doubt that if socialism is eventually to have full sway in the rural areas, agricultural co-operation must be realized. Yet, if the state sector is to gain the upper hand and defeat capitalism when conditions are not ripe for agricultural co-operation and the individual peasant production is still like a boundless ocean, it must strive first for the leading position on the market. Only with this security in hand, can it talk about utilizing, restricting and transforming the capitalist sector, uniting the sector of individual ownership of peasants and leading them onto the bright road of socialism.

The Struggle of the State Sector for the Leading Position on the Market. The battle between the state and capitalist sectors over the leading position on the market began immediately after the liberation of the whole country. The leading position of the working class in the

country had been established after the victory of the democratic revolution, but the same was not entirely true with the state sector in the economic field in the early days of liberation. The market was still controlled by the capitalist sector.

After liberation, in the big cities there existed large amounts of industrial and commercial capital with which the Party and government had never been confronted before. Under the reactionary rule of the Kuomintang, this capital had for a long time been used for speculation. After the War of Resistance to Japanese Aggression, the reactionary Kuomintang government always adopted the policy of currency inflation to meet its military expenditure and assist bureaucrat capital in its plunder of the Chinese people. This pernicious inflation of currency brought about exceptionally abnormal prices. In the eleven years from 1937 to August 1948 when the "Gold Yuan" notes were issued, prices rose by six million times. In less than a year's time from the day it was issued to the collapse of the reactionary Kuomintang government, the "Gold Yuan" was almost reduced to the value of scrap paper. While prices soared, bureaucrat capitalists and all the speculative capitalists made use of the idle capital and grabbed fabulous profits by speculation, hoarding and cornering the market. The ordinary industrial and commercial capitalists followed suit. They often gained higher profits in these ways than from their productive undertakings. At that time, it was not private but bureaucrat capital that played the main role in disrupting the national economy. Nevertheless, after bureaucrat capital had been taken over by the state and before the state sector had taken its leading position, the private capitalists, with their speculative activities, be-

came the chief miscreants in undermining the national economy.

In 1949 when the decisive victory was won in the Chinese People's War of Liberation, the country's financial and economic situation was very difficult. As a result of imperialist aggression and the long rule of the reactionary Kuomintang, the national economy suffered from immeasurable destruction. Production dwindled, calamity stalked the villages, and the interflow of goods between town and country was practically nil. The revolutionary war developed swiftly. Few taxes could be collected in the newly liberated areas. Nine million soldiers and government employees (a great number of them being reorganized or re-employed former Kuomintang soldiers and government employees) had to be supported and important branches of production and communication restored. So it was impossible then to maintain a balanced budget and quickly end price fluctuations. Certain capitalists took advantage of these difficulties the state was encountering and speculated in a frenzied hunt for unlawful profits by hoarding, cornering the market, and driving up prices. They waged a fierce struggle against the socialist state sector on the market.

A rise in prices was unavoidable at that time when a large-scale revolutionary war was being fought. The situation, however, had to be changed immediately; otherwise, it would have further encouraged the speculative activities of the capitalist sector and prevented the state sector from taking a leading position on the market. This would in turn have adversely affected the rehabilitation and development of industrial and agricultural production, the restoration of economic connections between the cities and the countryside and the improvement

of the living conditions of the people. In order to change the situation and establish state sector in the leading position on the market, the state actively revived state industries and established and developed state commercial enterprises in the cities. It set up and expanded supply and marketing co-operatives in the countryside and strengthened the work of purchasing and allocating industrial and agricultural products. By so doing, the state controlled the principal products to ensure supplies to the market. It began to introduce a market control system, dealing a severe blow to the unlawful activities of speculators by administrative measures combined with economic pressure. At the same time, the state mustered all its economic strength and prepared to stop the inflation of currency and stabilize prices.

In essence, to stabilize prices meant that the state sector took over the control of the market from the hands of the industrial and commercial capitalists, especially those engaged in speculation. It regulated market prices so that their fluctuations would no longer be influenced by the manipulations of speculative capital. In other words, the capitalist sector had no alternative but to operate within the price limits set by the state sector. This made it possible to quickly rehabilitate industrial and agricultural production, restore trading relations between cities and the countryside and direct the production of the capitalist and individual sectors of the economy through the price policy. It was also possible to regulate the distribution of national income and change the market controlled by private capital and harmful to the national economy into one which was under the direction of the state sector and which helped expand production and raise the living standards of the people.

The People's Government began its fight against speculative capital as soon as Shanghai and other big cities were successively liberated. In order to stabilize the value of money and ban the circulation of gold, silver and foreign currency on the market, it took a decisive step in closing the speculative stock-exchange. By relying on the workers and students, it uncovered the speculative transactions in gold, silver and U.S. banknotes. After many fierce struggles, such activities were mostly checked. Later, speculative capital turned to disturb and corner the market on grain, cotton yarn and other important commodities, drive up prices and threaten the daily life of the people. The People's Government organized several campaigns to reduce prices, dealing heavy blows at speculation. However, experience proved that it was necessary to gather together an overwhelming force to strike a fatal blow at speculative capital, else the stabilization of prices could not be satisfactorily realized. So, relying on its powerful state sector, the government began to launch a decisive struggle on a still greater scale.

The first step taken to maintain stable prices was to centralize the control of the financial and economic work of the state, so as to concentrate the economic strength necessary to secure a balance between revenue and expenditure. In the past, during the democratic revolution, financial and economic control was decentralized in different liberated areas. This method suited the situation when these areas were separated from each other by the enemy and the rural economy was based on individual production of the peasants and handicraftsmen. It achieved successful results. After the victory of the democratic revolution, however, the situation changed.

The economic activities and the markets in the country had been integrated as a whole, but the capitalist sector was waging a constant struggle against the socialist state sector. If the direction of financial and economic work had remained decentralized, the state would have been unable to allocate the funds and materials in its hands in a flexible way to maintain its leading position on the market and in the entire national economy. Moreover, the anarchy then plaguing the market would have been intensified, offering bourgeois speculators a further opportunity to fish in troubled waters.

In view of all this, the Communist Party and the People's Government announced a decision in March 1950 on the centralized control of all financial and economic work. This control included three aspects. The first was the centralized control of state revenue and expenditure. This required the transfer of the main part of revenue to the state treasury, so that the main part of state expenditure might be met therefrom. This made it possible to guarantee military needs, carry out economic rehabilitation and strive for a balance between state revenue and expenditure. The second was the centralized control and allocation of the material resources of the whole country. This enabled the state to take hold of the scattered, important material resources, so that it could regulate the supply and demand, control the market prices and effectively fight speculative capital. The third was the centralized control of funds in the country. This placed all the government funds, kept separately in various enterprises, government offices and army units up to that time, under centralized control of and utilization by the state bank, thus reducing the amount of currency in

circulation and greatly increasing the funds at the disposal of the state.

As a result of this centralized control together with other successful efforts from 1950 onwards — collecting industrial, commercial and agricultural taxes more efficiently, issuing bonds and extensively practising economy in expenditures, especially in those for the administration of government offices — a near balance was soon brought about between state revenue and expenditure. (The figures for state revenue and expenditure of 1950 showed only a 4.4 per cent deficit and there has been a surplus every year since 1951.) Simultaneously, the state made a large-scale shifting of grain, storing large quantities of it together with cotton and cotton cloth in the big cities. The implementation of the systems of fund control and of keeping accounts between different organizations brought the funds in the government offices and state enterprises and a large amount of floating currency back steadily to the state bank, thus rapidly cutting down the amount of banknotes in circulation. Consequently, a fundamental improvement was made in currency inflation and, from March 1950, prices began to drop. Taking the wholesale index number of prices in March 1950 as 100, it dropped to 75 in April and 69 in May. Thanks to the various measures taken by the government, no further drop occurred after June and the index figure rose to 85.4 in December of the same year. From then on, China has been able to maintain a balance between revenue and expenditure and stable prices.

That China was able to rapidly centralize the control of both finance and economy and stabilize prices speaks volumes for the absolute superiority of the people's democratic government and the socialist economic system.

Facts have proved that it is only under a system such as exists in China that the centralized control of finance, banking and trade can be swiftly brought about on a nationwide scale and that the state can accumulate overwhelming material strength to crush speculative capital on the market and defeat all the destructive activities of the capitalist sector.

Stabilization of prices established, in the main, the socialist state sector in the leading position on the market. State industries, communications and transport began to stand on their own feet and forge ahead. State commercial enterprises were set up and expanded in town and country, taking essential materials into their own hands. Through administrative measures and by giving business guidance, the state bank restricted the speculative activities of the private banks and native banks and gave them no other choice but to operate properly under its leadership.

The picture was entirely different with the capitalist sector. After March 1950 when prices began to drop, the unreal high purchasing power stimulated by long years of currency inflation burst like a bubble all at once, and the supply of grain, cotton yarn, cloth, and other essential consumer goods on the market for a time exceeded demand. This forced some private banks and commercial enterprises that had prospered during the period of currency inflation to suspend operation or close down completely. Many private factories which had been active in speculation and in cornering the market found themselves in a difficult position with excessive goods in stock and heavy debts, and they had to stop operation or reduce their production. In Shanghai, for instance, more than half of all the banks and native banks, the business of

which was mainly speculation, shut down, and so did one out of every ten commercial (mainly speculative) establishments. Comparing the output of private industry in the whole country in May 1950 with that in January of the same year in several major products, cotton cloth dropped by 38 per cent; silk and satin, 47 per cent; woollen yarn, 20 per cent; cigarettes, 59 per cent; caustic soda, 41 per cent; and ordinary paper, 31 per cent. The difficulties encountered by the capitalist sector were the unavoidable result of the complete reorganization of the old social-economic structure. Their causes were as follows:

The first was the lowered purchasing power of the people. The long period of plunder by imperialism, feudalism and bureaucrat capitalism, wars and inflation had already reduced the purchasing power of the Chinese people to a very low level, and the purchasing power in the vast newly liberated rural areas could not be raised quickly before the completion of land reform. This accounted, in the main, for the temporary stagnation in the sale of goods. Before prices were stabilized, the demand for goods appeared to be greater than the supply. That was actually false prosperity resulting from the panic buying and hoarding of goods by speculative capital under the influence of inflation. As soon as prices became stabilized, the unreal high purchasing power vanished and panic buying turned into competitive selling. Goods that had been in stock for years were suddenly dumped into the market, which choked sales, lowered prices and forced some of the factories to suspend or reduce production. The second was the comprador, feudal and speculative character of some private enterprises. Their expansion had not resulted from the development of pro-

duction and needs of commodity exchange, but from currency inflation and commercial speculation. It was natural that this type of enterprise should decline and go bankrupt in the process of reorganizing the whole social economy. That was why, after prices became stabilized, many speculative banks and commercial establishments and some enterprises that had served imperialism and the extravagant life of the feudal landlords and bureaucrat capitalists in the past shut down one after another.

The change that had taken place in the positions of the state and capitalist sectors was a fundamental change in their relationship and their relative strength. The state sector had placed under its control the essential industrial raw materials, the market and most of the bank deposits, while the capitalist sector was confronted with serious difficulties in procuring raw materials, marketing and raising funds. If the latter wanted to carry on production, it had to rely on the former. This change in the economic situation was obvious when the capitalist industries at that time hurriedly applied to the state sector for loans, asked the state to purchase their products and give them orders for processing and manufacturing goods.

The Hegemony of the State Sector over the Capitalist Sector. The establishment of the state sector in the leading position on the market was an important prerequisite for the execution of state policy to use, restrict and transform the capitalist sector.

After prices had been stabilized, capitalist industry and commerce met with many difficulties. In order that those capitalist enterprises that were beneficial to the national welfare and the people's needs might tide over

their difficulties and serve the rehabilitation and development of the national economy under the leadership of the state sector, in June 1950 the people's governments at various levels started to readjust industry and commerce according to the directives of Mao Tse-tung. This included readjusting the relationships between the different sectors. Its three basic links were the relationships between the state and private ownership, between labour and capital, and between production and marketing. The focal point was the readjustment of relationship between state industry and commerce and capitalist industry and commerce, that is, the relationship between the state and capitalist sectors.

In dealing with capitalist industrial enterprises, the main method adopted was placing orders with them for processing and manufacturing goods and purchasing their products, so that they might carry on and expand production. The state sector controlled the capitalist sector through the process of exchange, dovetailing its production into the state plan. By processing and manufacturing goods for the state sector, the capitalists solved their problems of raw materials and markets and derived a reasonable amount of profit from the processing charges and prices of goods the state paid them, thus ensuring continuous operation of their enterprises. Meanwhile, by controlling the wholesale market, the state took over the exchange process of the capitalist sector, restricted capitalist profits and anarchy in production and made the capitalists produce goods according to the state plan and social needs. Through this method, the state was also able to secure certain industrial products and supply them to the peasants in exchange for agricultural products.

In dealing with the capitalist commercial enterprises, the state trading organizations restrained their speculative activities and at the same time allowed them certain advantages in the retail and wholesale price differences and those between regions, and in the scope of their business, so that they could do their part, under the leadership of the state sector, in promoting the interflow of goods between town and country and between China and foreign countries.

In this readjustment of industry and commerce the state scored great victories. In less than six months the state helped the private industrial and commercial enterprises that were beneficial to the national welfare and the people's needs overcome their serious difficulties and resume normal production and operation under the leadership of the state sector.

To further strengthen the economic link between town and country and to expand the home market for industrial and agricultural products, the state started a big movement over a large area for the exchange of goods in the winter of 1950 and spring of 1951. Before the liberation of the whole country, the enemy had occupied the cities while the revolutionary forces had established themselves in the rural areas. This, coupled with the protracted war and wild inflation of currency, had seriously impaired the system of exchange between industrial and agricultural products. This situation could not be changed immediately after liberation. When prices were stabilized, it was necessary, therefore, for the state to quickly restore and develop the exchange between industrial and agricultural products by extending its commercial activities into the rural areas throughout the country through commodity exchange between the cities and the countryside, setting

up supply and marketing co-operatives in all the villages, and making proper use of private trade in the cities and small traders, pedlars and vendors in the rural areas. This exchange opened a big market for the agricultural and local products of the villages, accelerating the rehabilitation and growth of agricultural production. It also greatly raised the peasants' purchasing power, opening a potent home market for the industrial expansion in the cities. Since the exchange was carried out under the guidance of the state and in a planned way, it also quickened the formation of a nationwide unified socialist market.

In 1951, as a result of the rapid recovery of industry and commerce in the cities and the restoration of commodity exchange between town and country, there was a booming market. Once again the capitalists came into the open in their true colours, unscrupulously seeking profits and showing a strong desire to develop capitalism. The struggle of restriction and counter-restriction between the state and the capitalist sectors once more grew very sharp. At that time, however, the bourgeoisie was no longer able to openly contend with the state sector for leadership over the market. In an attempt to weaken the socialist state sector and resist its leadership over the capitalist sector, the bourgeoisie, taking advantage of the existing connections between these two sectors, resorted to bribery of government workers, tax evasion, theft of state property, cheating on government contracts and stealing economic information from government sources. The statistics of nine major cities, including Peking, Shanghai, Tientsin, Hankow, Canton and Shenyang, showed that 76 per cent of the more than 450,000 capitalist industrial and commercial enterprises used one

or another of these methods in varying degrees to make excessive profits. In order to beat back the offensive of the bourgeoisie, in early 1952, the *san fan* movement was launched among government workers against the "three evils" of corruption, waste and bureaucracy. It was followed by the *wu fan* movement, launched among the capitalists against the "five evils" of bribery of government workers, tax evasion, theft of state property, cheating on government contracts and stealing economic information from government sources. The latter movement scored a victory as a result of the exposures made by the workers and other employees in the capitalist enterprises and the legal actions taken by the state. This struggle again showed that it would have been impossible to score successes in the economic struggle without relying on the strength of the masses and the proletarian dictatorship.

The position of the working class in capitalist enterprises underwent a marked change after its decisive victory in the *wu fan* movement. Since the triumph of the democratic revolution, the working class in the capitalist enterprises had assumed a double status. As the leading class in the state, it had the power to supervise capitalist production; but individually, as wage earners the workers had to bear exploitation by the capitalists. It was not until after the *wu fan* movement that supervision by the workers was really put into effect within the capitalist enterprises and vigorously pushed forward the socialist transformation of capitalist industry and commerce. Although the *wu fan* movement took the form of face-to-face mass struggle, its aim was not to eliminate capitalism and the bourgeoisie as a class at that time, but was still to unite with and remould them.

Only a few capitalists who seriously broke the law by committing all the "five evils" were punished according to law. The basic policy of the Party and state was to isolate through struggle the few bourgeois elements who still persisted in unlawful activities from the masses of the people as well as from the rest of the bourgeois class. Its aim was to unite the great majority of the bourgeois elements who were willing to obey the laws and regulations of the state and continue to bring into play their active role beneficial to the national welfare and the people's needs.

During the *wu fan* movement, the market became stagnant again. The state then further expanded the scope of the orders it placed with the capitalist industrial enterprises for processing and manufacturing goods and let the capitalist commercial enterprises act as retail distributors or commission agents for the state. It also purchased agricultural products in large quantities and increased the exchange between town and country. As a result, the economy again took an upward turn. From that time on, the greater part of the capitalist sector was directed into the orbit of the state plan under the leadership of the state sector and the supervision of the working class. Of course, the struggle between restriction and counter-restriction did not come to an end, because the bourgeoisie would not withdraw from the historical arena unless there was no alternative. In the first half of 1953 when the First Five-Year Plan for the Development of the National Economy was initiated, the purchasing power of the people grew rapidly and simultaneously with large-scale economic construction. The supply of many important commodities fell short of demand. Taking advantage of this situation and some

shortcomings in the trade and taxation policies of the state, the bourgeoisie began to evade or refuse to accept the orders placed by the state for processing and manufacturing goods and frantically sought free competition. In the rural areas, private business joined forces with the spontaneous tendency of the peasants towards capitalism. Hoarding of and speculation in agricultural products further aggravated the imbalance of supply and demand. To change this situation, the state adopted a series of new measures for taxation and market control. From the end of 1953, it successively introduced the planned purchase and supply of grain, cotton and cotton cloth, which cut off the connections of capitalism in the cities with the countryside. Capitalist industry and commerce were further isolated and became more dependent on the state sector for raw materials, supply of stock and marketing. Under these circumstances, a large number of capitalist enterprises were turned into those of state capitalism and more of them accepted the advanced form of state capitalism which was joint state-private operation.

The Connections of the State Sector with the Sector of Individual Ownership of the Peasants. Socialist state sector relied not only on its own strength but also on its economic alliance with the peasants to win victory in its struggle with the capitalist sector. The latter had to depend on the state sector for the supply of raw materials and markets and to accept socialist transformation, since the state had controlled agricultural products and the rural market and gradually severed the connections between the peasants and capitalism in the cities. On the other hand, it was only when the state sector controlled the industrial products through placing orders with the

capitalist enterprises for processing and manufacturing, that it could expand its commercial links with the individual peasant production, check the growth of the spontaneous tendency towards capitalism, further consolidate the economic alliance between workers and peasants and bring about the socialist transformation of agriculture.

As previously stated, individual peasant production occupied an absolutely dominant position in China's national economy during the early transition period: The socialist state sector could establish its connections with this sector of economy only through the market and trade. During the period of the New Economic Policy in Soviet Russia, Lenin gave special emphasis to the role of trade, because in order to solve the question of "Who will win?", the bond between the working class and the peasantry and between socialist industry and agriculture had to be made secure by first developing commodity exchange between town and country to the fullest extent. From the beginning, the state sector had exercised its leadership over the individual sector mainly through commodity exchange and through the supply and marketing co-operatives and credit co-operatives. Of course, mutual aid and co-operation in production were also vigorously promoted at the same time.

Supply and marketing co-operatives were the main channel through which the state sector was linked with the individual sector in trade. This form suited the special characteristics of peasant production and so was easily appreciated and accepted by the peasants. At first these supply and marketing co-operatives were collectively-owned enterprises. Later they were developed into socialist enterprises in which ownership by the whole

people was combined with collective ownership. Their organization units on the basic levels were formed according to the principle of collective ownership by the working people, while the supply and marketing co-operatives at and above the country level obtained their funds mainly from the state and were actually enterprises owned by the whole people. This is why supply and marketing co-operatives were the best links through which the state sector could exercise its leadership over the individual sector.

In the first place, through their activities, the supply and marketing co-operatives consolidated the bond between the state sector and peasant production in trade. During China's transition period, the volume of retail sales in the supply and marketing co-operatives and consumers' co-operatives increased very rapidly. It jumped from 6.7 per cent of the total volume of the country's retail sales in 1950 to 45.8 per cent in 1954. The supply and marketing co-operatives also purchased, mainly for the state, large quantities of farm products. In 1954, about 77 per cent of their total purchase of farm products was made for the state. This was more than half the total amount of the purchase made by the state through all channels. Such trade links contributed to the strength of the economic alliance between the working class and peasantry and promoted the development of industrial and agricultural production.

Secondly, through their own function and a contract system in conformity with the state plan and price policy, the supply and marketing co-operatives helped the state gradually place the individual peasant production within the state plan. As small commodity producers, the peasants had to sell on the market the commodity por-

tion of their production. The question of whether they could reimburse themselves for the amount of labour they had expended not only affected their livelihood, but also determined whether or not they could continue to produce. With their production regulated by the law of value, the peasants watched the price changes on the market closely and regarded them as a barometer which helped them determine whether their production should be expanded or reduced. In old semi-colonial and semi-feudal China, the prices of farm products were dictated by the landlords and rich peasants in their capacity as rural merchants. There were big seasonal fluctuations of prices, which subjected the peasants to cruel exploitation. When prices were stabilized during the transition period after liberation, those of farm products were, in the main, regulated by the state in a planned way. The state had only to formulate a correct price policy and the peasants could arrange their production according to the market prices and generally meet the needs of the state plan. The state readjusted the ratios between grain and cotton prices, and between the prices of grain and industrial crops other than cotton. This played quite an important role in readjusting the areas sown to grain and cotton and other industrial crops, enabling the peasants to generally meet the needs of the state. For instance, cotton production recovered very rapidly from 1950 to 1952. This resulted from the raising of the price of cotton in proportion to grain and the special advantages given to cotton-growers as in making the purchase in advance supplying commodities and in matters of taxation. The output of cotton rose from 440,000 tons in 1949 to 1,300,000 tons in 1952, while the area sown was expanded from 41,550,000 *mou* to 83,640,000 *mou*. The price policy

could not be implemented solely by government decrees. It had to rely, first of all, on the trade links between the state and individual sectors. Otherwise — if cotton had not been purchased by the state but by private commercial enterprises — the price of cotton would have been manipulated by the capitalist merchants. But if the price of grain fluctuated as a result of manipulation by the capitalist merchants and rich peasants, and the state could not supply the cotton-growers with necessary grain at fixed prices, the ratio between the cotton and grain prices would actually be upset, even if the cotton were purchased by the state.

Finally, under the leadership of the state commerce, the supply and marketing co-operatives expanded the scope of trade of the socialist state sector in the countryside, gradually severed the connections between the peasants and urban capitalists and accelerated the socialist remoulding of the private merchants in the countryside. From 1950 to 1953, the membership of the supply and marketing co-operatives increased from 28,000,000 to 150,000,000 and they established 120,000 permanent retail shops, 40,000 stalls and mobile retail stations all over the country. This giant retail network which was co-ordinated with the state commercial enterprises ensured the leading position of the state sector in the countryside and left no other choice to private merchants but to accept socialist remoulding.

The connection between state and individual sectors through trade was an important prerequisite for placing the state sector in the leading position and realizing the socialist transformation of agriculture, handicrafts, capitalist industry and commerce. This connection was very quickly formed in the transition period, because there

was a powerful state sector and use was made of those capitalist industrial and commercial enterprises that were beneficial to the national welfare and the people's needs, and the state had relatively large quantities of industrial products to exchange for agricultural products. As most of the rural areas had been for many years more or less isolated from the cities, the capitalist sector was rather weak in the countryside. Moreover, in the revolutionary bases and liberated areas, there was already the tradition of supply and marketing co-operatives and consumers' co-operatives. It was relatively easy for the state to break down the resistance of capitalist sector in setting up new trade networks in the countryside and combining them with the peasants' individual production.

Of course, the struggle was still very intense during the whole period. Lenin once said:

Peasant farming continues to be petty commodity production. Here we have an extremely broad and very profoundly and firmly rooted basis for capitalism. On this basis capitalism persists and arises anew in a bitter struggle with Communism. The forms of this struggle are bag-trading and profiteering, as against state procurement of grain (and other products) and state distribution of products in general.¹

Things turned out just as Lenin had predicted. In 1953, China embarked on the large-scale planned development of her national economy. As the living conditions of the workers and peasants steadily improved and the number of the employed increased, the supply of grain and other agricultural products on the market fell short of demand.

¹V. I. Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 280.

The grain speculators and rich peasants joined hands with the spontaneous capitalist forces of small-peasant production (mainly a section of the well-to-do middle peasants). Taking advantage of the free market, they waged an intense struggle with the state and the co-operatives. They thwarted the state purchasing plan for grain and other farm products, aggravating the imbalance of supply and demand. The production of grain increased in 1953, but the peasants sold less. Many well-to-do peasants sold their subsidiary products, hoarding the grain and waiting for higher prices. Seizing this opportunity, the speculating merchants and rich peasants renewed their disruptive activities in the villages, seeking excessive profits. At that time, there were two ways to solve the grain problem. The capitalist way was to leave the market to the manipulation of the rich peasants and speculators, allow prices to soar and let the majority of the people face starvation and ruin. The socialist way was for the state to control the surplus grain and make a rational readjustment and distribution in the interest of the people of the whole country. The Party rejected the capitalist way and resolutely adopted the socialist one. Beginning in the winter of 1953, the state successively enforced its policies of planned centralized purchase and supply of grain and other important agricultural products.

Planned centralized purchase meant that after paying the agricultural tax and covering their own consumption, the peasants were to sell a certain portion of their surplus grain, cotton and oil-bearing crops to the state at a price fixed by it. No private merchants were allowed to purchase such crops directly from the peasants. Planned centralized supply meant that the state supplied the urban population with a fixed amount of such essential goods

as grain, edible oil and cotton cloth at fixed prices and at regular intervals. The state supplied the peasants with cotton cloth. It also supplied them with grain if they did not produce enough to support themselves or produced only industrial crops. The private merchants were strictly prohibited from trading in and shipping these products on their own. The planned purchase and supply of grain and, subsequently, of other important agricultural products involved a serious struggle between the socialist and capitalist sectors in the rural areas. In order to unite the great majority of peasants and crush the resistance of the rich peasants during the struggle, the state always took the economic interest of the individual peasants into consideration. The prices paid by the state for grain and other agricultural products that came under the planned purchase system remained practically the same as those it paid in its previous purchase of such items. In fact, they were more favourable to the peasants, because planned purchase and supply prevented the exploitation by speculators acting as middlemen. To raise the peasants' enthusiasm in production, the state fixed quotas for the production, purchase and supply of grain and announced that no additional purchase would be made when production was higher than the quota. As a result, this policy of planned purchase and supply of grain and other important agricultural products won the support of the masses of the peasants in general, especially the poorest of them, and only a few of the well-to-do ones were against it.

The implementation of this planned purchase and supply policy involved a serious struggle to decide whether the socialist or capitalist road would be taken. Since China was a big country with a population of 600 million

and agricultural production was not yet vigorously developed before the completion of agricultural co-operation, it was inevitable that the supply of grain and other important agricultural products lagged behind demand for a certain period. The resolute implementation of the planned purchase and supply policy provided the cities, areas growing industrial crops and calamity-stricken areas with a supply of grain and other necessary agricultural products, kept prices stabilized and ensured the smooth progress of socialist construction, agricultural co-operation and socialist transformation of capitalist industry and commerce. If the planned purchase and supply had been replaced by free competition, speculation would have spread far and wide, prices would have fluctuated and there would have been no guarantee for the supply of grain and other important agricultural products to the cities, areas growing industrial crops and calamity-stricken areas. This would have seriously thwarted socialist construction and obstructed the realization of agricultural co-operation and socialist transformation of capitalist industry and commerce. It was perfectly clear that the first method was beneficial to socialism and the working people as a whole, but not to the exploiters and speculators who dreamed of renewing capitalism. The second method was just the reverse. It would have helped the unbridled growth of capitalism, to the utter detriment of socialism and the working people. It was precisely because of this that the bourgeois Rightists frantically attacked the first method in an attempt to restore the second. They clamoured, "Planned purchase and supply has been a failure." They tried to sow discord between the allied working class and peasantry and enticed

a section of the well-to-do peasants with a spontaneous tendency towards capitalism to follow in their footsteps.

The practice in China's economic life has proved that planned purchase and supply has been a great success instead of a failure. Without it the tremendous achievements in China's socialist revolution and construction would have been impossible. Before agricultural co-operation, it was one of the important policies ensuring the successful realization of socialist construction and the consolidation of the worker-peasant economic alliance. It remained so for a fairly long period even after the fundamental realization of agricultural co-operation.

During the transition period, there were two forms of connections between the state sector and the sector of individual ownership of the peasants in the field of credit. One was the direct extension of loans to the peasants by the state bank, and the other was the development of the credit co-operatives. In a few years, through the People's Bank of China and the supply and marketing co-operatives, the state provided the peasants with large loans in the form of production funds and modern farm implements, chemical fertilizer and insecticide, mobilizing them to embark upon water conservancy projects, such as sinking wells, digging ditches and ponds and building dykes. From 1950 to 1955, the state granted a total of 4,000 million yuan in agricultural loans, and another 3,100 million yuan in 1956. However, the state loans alone were not enough to overcome the difficulties of the peasants' production and their daily life. They needed to organize themselves and set up a credit institution of a mass character — the credit co-operative.

Credit co-operatives had existed in the revolutionary bases and liberated areas in the past. Large numbers of

them, however, were set up only after 1950 when prices became stabilized. This form of credit organization was founded by the peasants on a voluntary basis under the leadership of the socialist state sector. As part of the socialist banking system, it helped to strengthen the leadership of the state sector over the sector of individual ownership of the peasants. Up to the end of 1955, there were 160,000 credit co-operatives throughout the country with a total membership of more than 100 million, holding over 200 million yuan of share funds and over 2,200 million yuan in deposits. The development of credit co-operatives and increasing amount of state loans every year solved the peasants' financial difficulties in time. They gradually restricted and eliminated the exploitation by usury in the countryside, promoted the movement for mutual aid and co-operation in agriculture and accelerated agricultural production.

In addition, the state also gave technical guidance and help to the individual sector through the state farms, agricultural machinery stations and institutes for scientific agricultural research. This also played a part in strengthening the bonds between the state sector and the sector of individual ownership of the peasants.

The ultimate aim of uniting the state sector with the individual sector of the peasants is to develop agricultural production rapidly, consolidate the leading position of the state sector in the entire national economy and ensure the victory of socialism over capitalism in the struggle to determine which road to take. The final aim of linking the two sectors of economy in the field of commodity exchange is to promote the co-operative movement in agricultural production. It is only after the realization of co-operation in agricultural production that a solid and

unbreakable alliance between the working class and peasantry can be set up and China's successful transition to socialism ensured.

3. The Development of the Socialist State Sector

Having completed the rehabilitation of her national economy from 1950 to 1952, China embarked, between 1953 and 1957, on the First Five-Year Plan for Development of the National Economy and this was also brought to a successful conclusion. In the course of restoring and expanding the national economy, the state sector registered high-speed progress and became increasingly consolidated.

The State Sector During the Period of National Economic Recovery. Thanks to the abolition of imperialist prerogatives in China and the elimination of feudalism and bureaucrat capitalism, not only did the socialist state sector grow during the period of economic rehabilitation; the same was, to some extent, true with the capitalist sector, i.e. those private enterprises which were beneficial to the national welfare and the people's needs. At that time, the struggle for leadership between the state and capitalist sectors over the market became very sharp. This struggle, however, was meant not to eliminate the capitalist sector at once, but to make it possible for the state to utilize and restrict it and create conditions for its transformation. At that time, the Chinese Communist Party adopted the policy of "taking into account both public and private interests, benefiting both labour and capital, mutual aid between town and country and interflow of trade between China and foreign countries."

There was also the policy of division of work and co-ordination between the five sectors of the economy, so that each played its proper role under the leadership of the state sector. These policies were correct in every detail, for they facilitated the economic rehabilitation and served the cause of socialist revolution and construction.

Nevertheless, as shown in the trend of economic development throughout the transition period, it was impossible for the socialist state and capitalist sectors to develop side by side and co-exist for long in the single framework of a national economy, since they were based on two entirely antagonistic types of production relations. As production relations invariably change with the uninterrupted development of the productive forces, it was inevitable that contradictions between the state and capitalist sectors continually grew sharper in the course of their development. As early as 1951, when the capitalist sector had just pulled through its difficulties and begun to move towards prosperity, some capitalists came forward with a clamour that "the state should not contend with the people for gains." They demanded that the state let them run light industry which brings in more profits with less investment, and put forward the idea of "letting the state run heavy industry and the private individuals run light industry." All this indicated their attempt to restrict the growth of the state sector and a burning ambition to effect an unbridled development of capitalism. That is why, in the rehabilitation period, while the capitalist sector was allowed to develop to a certain extent in accordance with the Party and the government's policy of utilizing, restricting and transforming capitalist industry and com-

merce, the capitalists' clamour had to be refuted. It was necessary to develop the socialist state sector quickly and resolutely and consolidate its leading position in the national economy.

The development of the socialist state sector required, first of all, the rehabilitation and expansion of state industries, communications and transport. In 1949, right after the victory of the People's War of Liberation, industry was reduced to its lowest point in production as a result of long-term plunder and destruction by the imperialists and Kuomintang reactionaries. Taking the peak annual output before liberation as 100, in 1949 the output of iron was 14.0; steel, 17.2; coal, 52.4; electricity, 72.3; cement, 28.8; and cotton yarn, 73.7. At that time, it was impossible to immediately carry out large-scale industrial construction. This was because, at the time when the revolutionary war was gaining ground, communications between town and country were blocked and market prices were fluctuating. Therefore, the limited amount of funds had to be used first of all to meet the needs of the revolutionary war, then to restore the war-torn communications (especially railways) which helped to supply the market with grain and industrial products needed for daily use. Only by so doing was it possible to pave the way for the recovery and development of industry.

The wholesale rehabilitation of industrial production began roughly in 1950. By 1952, it had been crowned with phenomenal success, thanks to the correct leadership of the Communist Party, the boundless labour enthusiasm of the emancipated working class and the disinterested help of the Soviet Union. In 1952, the gross output value of the state and private industries in the

whole country rose by 151 per cent, compared with 1949, showing an average annual increase of 36 per cent; the gross output value of state industries alone recorded a 287 per cent jump, showing an average annual increase of 57 per cent. In the same year, the country had more than 10,000 state industrial enterprises, with some 2,510,000 workers and other employees.

As a result of the growth of industry, the proportion of production by modern industries in the combined gross output value of industry and agriculture rose from 17 per cent in 1949 to 26.7 per cent in 1952. The proportion of heavy industry in the gross output value of industry rose from 28.8 per cent in 1949 to 39.7 per cent in 1952. The proportion of state industries in the gross output value of all branches of industry, including handicrafts, rose from 26.3 per cent in 1949 to 41.5 per cent in 1952. In the period under review, a number of large factories and mines were expanded or built with the help of the Soviet Union, such as the heavy steel-rolling mill and seamless steel tubing mill of the Anshan Iron and Steel Company, the Fuhsin Open-Cast Coal Mine, the Taiyuan Heavy Machinery Works and the Taiyuan Textile Machinery Works. The construction of these enterprises heralded the large-scale development of the socialist state economy.

During the period of national economic recovery, industrial and agricultural production surpassed the peak pre-liberation level. The following table shows the output of some industrial and agricultural products in 1952 and their peak annual output before liberation;

Items	Output in 1952	Peak Annual Output Before Liberation	
		Year	Output
Steel	1,350,000 tons	1943	920,000 tons
Coal	66,490,000 tons	1942	61,880,000 tons
Electricity	7,300,000,000 KWH	1941	6,000,000,000 KWH
Cement	2,860,000 tons	1942	2,290,000 tons
Cotton yarn	3,620,000 bales	1933	2,450,000 bales
Grain	154,000,000 tons		139,000,000 tons
Cotton	1,300,000 tons		850,000 tons

That China's industrial and agricultural production recovered at such a rapid rate speaks volumes for the superiority of the socialist system.

The recovery and growth of both industrial and agricultural production was accompanied by a rapid development in state-operated communications and transport. In 1952, the railways in operation throughout the country totalled over 24,500 kilometres as against 21,989 kilometres in 1949. The new Laipin-Munankuan, Chengtu-Chungking and Tienshui-Lanchow Railways were successively completed. Tremendous progress was made also in highways, inland shipping and civil aviation.

The growth of state industries and communications and transport prepared a solid basis for the socialist sector's struggle against the capitalist sector and strengthened the economic alliance between the working class and the peasantry. Only with such a solid basis could full rein be given to the development of state and co-operative commerce and state credits and the leadership of the state sector over other sectors be consolidated.

During this period state commerce, the distributor of the products of society, was the mainstay in the state sector's struggle with the capitalist sector for the control of the market. Under the capitalist system, commercial capital used to draw the products produced by other economic sectors into the orbit of capital turnover, thus turning them into commodities controlled by the capitalists. With powerful state commercial enterprises, it was likewise possible to direct the products of the other economic sectors into the exchange sphere under state control. In this way, not only could products of the state sector be fully utilized but those of the sector of individual ownership also could be turned into a material force for using, restricting and transforming the capitalist sector. The products of the latter could also be transformed into a material force for consolidating the economic alliance between the working class and the peasantry. Thus, by controlling the exchange of social products, state commerce could keep market prices under its control and through making contracts with private enterprises for the manufacturing and processing goods, and through its own price policy, it could regulate the production of both the capitalist and individual sectors, gradually drawing them into the state plan and making them gradually accept socialist transformation.

In the period of rehabilitation, big strides were made by state commerce. By the end of 1952, the number of state shops throughout the country had exceeded 30,000, or 4.7 times that of 1950. Together with the supply and marketing co-operatives in the countryside and the consumers' co-operatives in cities, they formed a socialist commercial network, national in scope, with state commerce in the lead, supported by co-operative trade. In

1952, total retail sales increased by 62.3 per cent compared with 1950, while the wholesale volume rose by 79.9 per cent. In the same period, total retail sales controlled by state commerce increased by 306 per cent and those of the co-operatives by 529 per cent. Thus, the proportion of state and co-operative commerce in the total volume of commodity exchange was immensely increased. In 1952, the proportion of state commerce in the total wholesale trade rose to 60.5 per cent as against 23.2 per cent in 1950, and the proportion of state and co-operative commerce in the total retail sales rose to 34.4 per cent as against 11.6 per cent in 1950.

As both state and co-operative commerce grew, important materials of all descriptions produced by different economic sectors — such as grain, cotton yarn, cloth, industrial raw materials and certain apparatus — were placed under its unified control, thus ensuring the supply of goods to the market and the stability of prices and increasing the commodity exchange between town and country.

In foreign trade, the state adopted the policy of centralized control. After the abolition of imperialist prerogatives in China and the confiscation of bureaucrat capital, the state sector quickly established absolute hegemony in the total volume of import and export trade — handling about 93 per cent by 1952. Gone were the days when imperialism could create an extremely unfavourable balance of trade for China by dumping its goods on the Chinese market and plundering raw materials at will. In a very short period, China's trade relations with the Soviet Union and other socialist countries were expanded, based on mutual aid and co-operation. Trade relations were also established with many other coun-

tries on the basis of equality and mutual benefit. China, after suffering from a surplus of imports for such a long period now had a balanced trade. It was then that U.S. imperialism adopted a policy of "blockade" and "embargo" against China, fondly hoping to put a spoke in the wheels of her economic recovery and progress. But it failed. The "blockade" and "embargo," instead of hampering her economic rehabilitation and progress, actually helped to eliminate the semi-colonial dependent character of China's economy and shortened the course towards complete economic independence, bringing greater and faster results to her construction.

State banks are an important means by which proletarian state power defeats capitalism and builds socialism. To quote Lenin's words, "That will be general state *bookkeeping*, general state *accounting* of the production and distribution of goods, something in the nature, so to speak, of the skeleton of a socialist society."¹ In so far as production is socialized, it will be impossible for the state sector to give effective leadership to national economic development as a whole if banking is not also placed under the control of the socialist state.

In old China, banking was monopolized by imperialism and bureaucrat capital. Following the victory of the democratic revolution, the banks controlled by bureaucrat capital were taken over by the state led by the working class. Since the banks owned by capitalists were of a highly speculative nature, some of them closed down after commodity prices had been stabilized, while others switched over to joint state-private operation; hence the rapid development of the state banks. Side by side with

¹V. I. Lenin, *Selected Works*, International Publishers, New York, Vol. VI, p. 266.

the restoration of industrial and agricultural production, these state banks registered an even more rapid development in their business, particularly after the state had achieved a balance in its revenue and expenditure, exercised control over funds and reduced the rates of interest and remittance. From March 1950 to the end of the year, the amount of deposits, loans and remittances handled by state banks increased more than five times. The state banks, which now handled over 98 per cent of the country's deposits and loans gradually developed into clearing houses as well as centres for obtaining cash funds and short-term credits. This development consolidated the leading position of the state sector in issuing credit, making it easier to guide the private banks into the channel of state capitalism and giving effective support to state sector in its efforts to stabilize market prices.

As a result of the rapid growth of the state sector, the living standards of the working people were raised considerably. In 1952, the total number of workers and other employees throughout the country reached 15,800,000, an increase of 97.5 per cent over 1949. Unemployment, which had been a legacy of old China, was now greatly reduced. In the same year, average wages in all parts of the country registered a 60-120 per cent increase over 1949, while the average total income of each peasant household rose by 38 per cent.

Having completed economic recovery in 1952, China directed her effort in 1953 to large-scale, planned construction of her national economy.

The Development of the State Sector During the First Five-Year Plan Period. The basic tasks of the First Five-Year Plan in China were to lay a preliminary

foundation for socialist industrialization with the construction of heavy industry as its core, and to bring about the gradual socialist transformation of agriculture, handicrafts and capitalist industry and commerce, increasing the proportion of the socialist sector in the whole national economy in order to ensure a decisive victory for socialism in its fight against capitalism.

The accumulation of funds was a prerequisite for developing socialist state industry and undertaking large-scale capital construction. Capitalist industrialization was built up by exploiting the people in the country concerned, plundering the peoples in other countries, or contracting foreign loans which made the debtor nation a virtual slave to the creditor nation. China, of course, could not adopt such methods because they were not in keeping with her social system. Her methods were, first and foremost, to have recourse to her own resources and to obtain possible foreign aid, which means aid from socialist countries. The imperialist countries would never help China. Back in 1949, Mao Tse-tung said: "Internationally we belong to the side of the anti-imperialist front headed by the Soviet Union, and so we can only turn to this side for genuine and friendly help, not to the side of the imperialist front."¹

In tackling the question of finding funds for construction by her own efforts, China had two main sources. One, the more important of the two, was to take part of the value created by workers in the socialist state enterprises and appropriate it directly for socialist accumulation. The other was to turn part of the value produced by other economic sectors into funds for so-

¹Mao Tse-tung, *On People's Democratic Dictatorship*, Foreign Languages Press, Peking, 1959, p. 11.

cialist construction through the redistribution of the national income. The latter source was supplementary.

To satisfy the constantly rising material and cultural requirements of the working people, it is necessary to use part of the value created by the working class in socialist enterprises for accumulation and expanded production. Herein lies the fundamental difference between socialist and capitalist accumulation. Under capitalism, since the means of production are owned by capitalists, accumulation is brought about through the capitalization of the surplus value. Hence the process of capital accumulation is synonymous with the process of the growing exploitation of the working class and its increasing impoverishment. In contrast, the socialist state sector being based on the ownership by the whole people, its accumulation is no longer the capitalization of surplus value nor does it embody the exploitation of man by man. Under a socialist system, accumulation is increased not by cutting the working people's personal consumption or by impoverishing them and reducing them to the verge of starvation. On the contrary, it is increased on the basis of continuously improving their material well-being. In a socialist country, except the part that goes for the consumption of the working people, the overwhelming portion of the national income goes to socialist accumulation. The system is quite different from that of the capitalist countries, where a huge portion of the national income is squandered by the bourgeoisie, or that of the countries which have not achieved complete economic independence and in which the national income is subject to imperialist plundering. That is why accumulation in socialist countries can increase at a much faster rate than in capitalist countries.

During the transition period, since the state sector developed side by side with several other sectors, the state was able to use a portion of the value created by the workers, either individually or collectively, in the capitalist enterprises, for socialist accumulation through taxation and price policies. Chinese peasants no longer had to pay the onerous land rent to the landlords after the abolition of feudal landownership. It was in their own interest to allocate part of their income as funds for socialist construction after setting aside what was needed for expanding production and raising their own living standards. It was only when the state sector had developed that their growing needs in production and daily life could be satisfied, and only when the country had been industrialized that the mechanization and electrification of agriculture could be effected. Moreover, a considerable portion of the state construction funds went directly to agriculture. During the transition period, although the capitalist sector continued to exploit the surplus value created by the working class, it was possible for the state, through various measures, to finance socialist construction with part of the value created by the workers in capitalist enterprises. This was because the state, apart from taxing the capitalist enterprises, had established various links with them by placing orders for manufacturing and processing goods and by other means. In essence, this part of value was similar to that created by workers in state enterprises and used for accumulation. The one difference was that the latter was handed over directly to the state while the former became part of the state's assets through the redistribution of the national income.

Quantitatively, the state sector's portion in the country's accumulation of funds increased continuously while that of the other sectors, relatively speaking, tended to decrease. For instance, in 1955 the profits and taxes paid in by the state sector amounted to 71.1 per cent of the total state revenue as against 34.1 per cent in 1950, whereas the taxes paid by the peasants and private industrial and commercial enterprises dropped from 62.5 per cent in 1950 to 20.9 per cent in 1955.

As a result of the rapid growth of the state sector, the profits paid in to the state by state enterprises (excluding the taxes paid by them) increased every year. In the five years from 1953 to 1957, they totalled over 56,600 million yuan, whereas in the same period state investment in capital construction that came under the state budget was 49,300 million yuan. In other words, China could completely depend on the accumulation within her state sector to cover the amount needed for her gigantic economic construction.

The imperialists and all reactionaries had maintained that China would not be able to obtain sufficient funds for construction without aid from capitalist countries. This was only their wishful thinking. Contrary to their expectations, she has successfully tackled the problem of obtaining funds for her socialist construction by relying on her own accumulation, especially that derived from within the socialist enterprises. The proportion of accumulated funds in the national income was 24 per cent in 1957 as against 20 per cent in 1952. Between 1953 and 1957, the funds allocated by the state for capital construction to economic and cultural departments totalled 49,300 million yuan, exceeding the original plan by 15.3 per cent. Including the investments made with

the funds raised by different local organizations and enterprises themselves, the aggregate amount ran up to 55,000 million yuan, which was far greater than the aggregate fixed assets of the state enterprises in 1952 (29,600 million yuan). The capital construction investments of the state rose from 6,500 million yuan in 1953 to over 12,600 million yuan in 1957, that is, an increase of nearly 100 per cent.

Next, to develop socialist state industry and to carry out large-scale capital construction, the question of machinery and equipment had to be tackled.

As China's socialist industrial construction was carried out, the main attention was given to the development of heavy industry; hence the need for large quantities of machinery and equipment. Because of economic backwardness, old China had to import machinery, equipment and essential raw materials of all descriptions. During the period of national economic recovery, thanks to her efforts to restore and improve existing industrial enterprises and build a number of key heavy industries, New China began to manufacture small machines and certain equipment in hundreds of designs which had not been home-produced before. This, however, still fell far short of meeting the needs of large-scale socialist construction. In order to develop production at top speed, China imported large quantities of equipment from the Soviet Union and the People's Democracies, apart from making energetic efforts to raise her own technical level and stand on her own feet. During the period of the First Five-Year Plan, she built and enlarged 166 major projects with the help of the Soviet Government. These modern plants, furnished with the latest technical equipment, were mostly for heavy industry. Aimed at promot-

ing a common economic upsurge among the socialist countries, this fraternal help from the Soviet Union played an important part in China's economic construction during the period of the First Five-Year Plan. Although enlisting the help of other fraternal countries at that time to help build her heavy industry, China did not envisage the necessity continuing for many years. For a country like China which is large and populous, it would be impossible to complete technical reconstruction without an all-embracing industrial system and a generally self-sufficient supply of machinery, equipment, raw materials, other materials, fuel and power. Great importance was, therefore, attached to the manufacture of new industrial products during the period of the First Five-Year Plan. In the iron and steel industry, in 1957 China produced 4,000 varieties of steel products. By 1957 she was 86 per cent self-sufficient in steel products which had increased in quantity and variety. The machine-building industry was then able to produce whole sets of 12,000-kilowatt steam turbine power-generating equipment and 15,000-kilowatt hydraulic turbine power-generating equipment, 1,000-cubic-metre blast furnace equipment, 185-ton open-hearth furnace equipment, coal combines, coal mining equipment with an annual capacity of 900,000 tons, over 200 types of modern machine tools, electronic tubes, whole sets of textile, paper-making, rubber-processing and sugar-refining equipment, jet planes, lorries and locomotives of modern designs. With the continuous increase of new products, China was more than 60 per cent self-sufficient in machinery and equipment in 1957.

To develop our industry, it was necessary to train a sufficient number of skilled workers and scientific and technical personnel. China is well endowed with man-

power which, however, was not put to rational use in pre-liberation days. The proportion of skilled workers, scientific and technical personnel was small, and the training of such personnel had, for a considerable length of time, remained at a very low level. Under such circumstances, in addition to uniting, educating and remoulding the available scientists and technicians and helping them to serve the people wholeheartedly, it was imperative for New China to spare no pains in training new people for this work, together with an army of working-class intellectuals. If this had been neglected, it would have been difficult to carry out socialist construction. During the time of the First Five-Year Plan, a series of measures were taken to train technicians, such as increasing the enrolment in higher educational institutions and secondary vocational schools and promoting spare-time education in various enterprises. The purpose of all these was to augment the numbers of scientific and technical personnel as quickly as possible. The enrolment in higher educational institutions rose to 441,000 in 1957 as against 117,000 in 1949, and the number of students in secondary vocational schools rose from 1,270,000 to 7,080,000. Between 1949 and 1957, 360,000 students graduated from higher educational institutions, of whom 110,000 were graduates of engineering departments. In the same period, over 1,000,000 students graduated from various secondary vocational schools, including 200,000 from engineering courses. In addition, large numbers of skilled workers and technical personnel were trained in the enterprises under the various industrial ministries by opening training classes and technical schools, by short-term training or having the experienced workers coach the apprentices. As a result, the ranks of the country's technical personnel

swelled rapidly. In 1957, the number of technicians and engineers in industry throughout the country reached 175,000, or three times that of 1952.

In building socialism, it was imperative to tackle all questions relating to funds, equipment and technical personnel. In doing this, however, the relationship between technique and politics and between the cadres in charge and the rank and file had to be handled correctly. In implementing the First Five-Year Plan, therefore, great importance was attached to the principle of putting politics in command and following the mass line. This played a decisive role in ensuring the advance of our socialist construction at top speed.

During the First Five-Year Plan period, the fixed assets accruing from investment reached 41,100 million yuan. Of this, industrial fixed assets accounted for 21,400 million yuan, exceeding the total accumulated in the 100 years preceding liberation. In the period under review, among the more than 10,000 industrial and mining projects under construction, 921 were above-norm¹ proj-

¹To facilitate management and control of major capital construction projects, the state has, in the light of actual conditions in China, set an "investment norm" for every category of capital construction. Any construction project, whether it is new, rebuilt or restored, is classified as "above-norm" or "below-norm" according to whether its invested capital is above or below the "normal" figure. In industry, for example, the investment norm for the iron and steel, motor vehicle, tractor, shipbuilding, and locomotive and rolling-stock manufacturing industries is ten million yuan. For the non-ferrous metals, chemical and cement industries it is six million yuan. For power stations, power transmission lines and sub-stations, the coal-mining, oil extracting, oil refining, machine-building (not including communications equipment) industries, motor vehicle and ship maintenance works, and textiles (including printing and dyeing) it is five million yuan. For the rubber, paper-manufacturing, sugar-refining, cigarette-

ects, 227 more than the number originally planned. By the end of 1957, 537 above-norm industrial projects had gone into full or partial production, i.e. at an average rate of more than 100 projects a year. Of the 166 important projects the Soviet Union helped to design, 135 were already launched, and of these, 68 had been completed or partially completed and were in operation. Other fraternal countries—the German Democratic Republic, Czechoslovakia, Poland, Hungary, Rumania and Bulgaria—helped China build 68 projects. By the end of 1957, 64 were under construction, and 27 of these were completed and in operation. All these construction undertakings laid the preliminary foundation for China's socialist industrialization, raised the output capacity of the major industries at a rate never before known, and so began to change the industrial backwardness of China.

The increase in the output capacity and in labour productivity brought about a rapid growth in the country's industrial production in the five-year period. In 1957, the gross output value of industry reached 65,000 million yuan, which exceeded the original plan by 21 per cent and was 141 per cent higher than in 1952. The average annual rate of increase was 19.2 per cent. State industries accounted for 42,200 million yuan, which was 196 per cent greater than in 1952. All this showed a radical change in the place industry occupied in the national economy and the industrial structure itself. In 1957, the proportion of modern industry accounted for 40.1 per cent of the combined gross output value of industry and agriculture as against 26.7 per cent in 1952; heavy in-

making and pharmaceutical industries it is four million yuan. For the ceramics, food-processing (except for sugar-refining) and other light industries it is three million yuan.

dustry accounted for 52.8 per cent of the gross output value of all industries as against 39.7 per cent in 1952. The output value of state industries in the total of all industrial branches, including handicrafts, rose to 53.8 per cent in 1957 as against 41.5 per cent in 1952.

Following is a table showing the output of the major industrial and agricultural products in 1957 and their percentage increases over 1952:

Items	Output in 1957	Percentage increase over 1952
Steel	5,350,000 tons	296
Pig iron	5,940,000 tons	208
Coal	130,000,000 tons	96
Electricity	19,300,000,000 KWH	166
Cement	6,860,000 tons	140
Cotton yarn	4,650,000 bales	28
Grain	185,000,000 tons	20
Cotton	1,640,000 tons	26

During the period of the First Five-Year Plan, the Central Committee of the Communist Party and Mao Tse-tung charted the concrete course for industrialization in China — the simultaneous development of industry and agriculture while giving priority to the development of heavy industry; simultaneous development of national and local industries and large, medium-sized and small enterprises under centralized leadership, over-all planning, division of work and co-ordination. This gave dynamic impetus to the development of industrial and agricultural production.

This growth was coupled with development in state communications and transport services, commerce, credit and other economic undertakings. In the sphere of communications and transport, the railways in operation throughout the country had reached 29,862 kilometres by the end of 1957 which was 22 per cent more than in 1952. In the five years from 1953 to 1957, 33 new railway lines were built and three old ones were restored and put into operation. The total length of newly built or restored trunk lines, branch lines and special lines serving certain establishments and the double-tracking of lines was about 10,000 kilometres. The Paochi-Chengtu and the Yingtan-Amoy Railways, which cut across jagged, towering mountains, the Chining-Erhlien Railway leading to the Mongolian People's Republic and the Soviet Union were completed. These new lines help to increase the contact between various parts of the country and strengthen the ties between China and other fraternal countries. The highways in operation throughout the country exceeded 250,000 kilometres by the end of 1957. Tremendous progress had also been made in inland shipping and air transport.

In commerce, the volume of retail sales reached 47,400 million yuan in 1957 which was 71 per cent more than in 1952. The proportion of the state and co-operative sectors in the total retail sales rose to 62 per cent as against 34.4 per cent in 1952. During the First Five-Year Plan period, to promote the development of agriculture and rural side-occupations, the state trading companies and supply and marketing co-operatives purchased a total of 58,200 million yuan's worth of their products, thus in the main ensuring industrial development and filling the demands of domestic and foreign markets. A total of

10,300 million yuan's worth of all kinds of means of production was provided for the rural areas by the state through supply and marketing co-operatives. This gave effective support to agricultural production and strengthened the economic alliance between the working class and the peasantry. Big strides were made also in foreign trade and credit extension.

During the First Five-Year Plan period the stability of commodity prices was maintained. Taking 1952 as 100, in 1957 the wholesale price index was 100.1 and the retail price index was 108.6. The retail price increased to a small extent, which was due mainly to raising the prices of some non-staple foodstuffs. To reduce the disparity between the prices of industrial and agricultural products inherited from before liberation, the purchasing prices for agricultural products in the whole country were raised by 22.4 per cent in 1957 over 1952.

Along with the growth in production, the people's living standards were gradually raised during this period. By the end of 1957, the number of the country's workers and other employees was 24,510,000, or 8,700,000 more than in 1952. Unemployment, a legacy left over from old China, was in the main eliminated. In 1957, the average annual wage for the workers and other employees throughout the country stood at 637 yuan, a 42.8 per cent increase over 1952. Real wages registered an increase of more than 30 per cent, in spite of the slight increase in the retail price. In the five-year period, the state expenditure on labour insurance, medical services and welfare facilities for workers and other employees totalled 10,300 million yuan, while the floor space of living quarters built for them by the state covered 94,540,000 square metres. In the same period, thanks to the increase

in agricultural production and the rise in purchase prices of farm produce, the income of the peasants throughout the country rose about 30 per cent.

The unusual growth of the state sector was registered after successive victories were gained in the socialist revolution on the economic, political and ideological fronts. Such phenomenal achievements would have been impossible, had it not been for the successful socialist transformation of agriculture, handicrafts and capitalist industry and commerce and for the victory of the rectification campaign and the struggle against the bourgeois Rightists. The growth of the state sector, in turn, also provided an extremely important material basis for the victory of the socialist revolution.

CHAPTER TWO

THE SOCIALIST TRANSFORMATION OF THE SECTOR OF INDIVIDUAL OWNERSHIP OF THE PEASANTS AND HANDICRAFTSMEN

1. The Economic Conditions in the Countryside After Land Reform and the Policy of the Chinese Communist Party Concerning Agricultural Co-operation

The Two Roads for Economic Development in the Countryside After Land Reform. Land reform began in various liberated areas in China during the period of the democratic revolution. After the founding of the People's Republic the land reform movement was launched on a nationwide scale. The aim was to confiscate the land belonging to the landlord class and distribute it to the landless and land-poor peasants, thus changing feudal landownership into ownership of land by the peasants. This dynamic change in the history of China was basically completed in 1952.

Land reform gave 700 million *mou* (or more than 46 million hectares) of free land to some 300 million peasants together with some other means of production, thus fundamentally changing the economic relations in the countryside. The system of feudal economy which had prevailed in China for several thousands of years was

abolished. The rich peasants were weakened economically as part of their surplus land was requisitioned; and the peasants working on their own became the owners of land and some other means of production. The peasants no longer had to pay the landlords the exorbitant annual land rent totalling some 70,000 million catties (35 million tons) of grain and began to use this part of the fruits of their labour for the expansion of production and the improvement of their living conditions. This gave rise to great enthusiasm for production such as had never been witnessed before. At that time this enthusiasm for individual production was good for the recovery and development of agriculture and the entire national economy. It was pointed out in the "Decisions on Mutual Aid and Co-operation in Agricultural Production" adopted in 1953 by the Central Committee of the Communist Party of China:

Following the land reform, peasants show their enthusiasm for production in two ways: in individual economy, and in mutual aid and co-operation. This enthusiasm of the peasants for production is one of the basic factors in the speedy recovery and development of the national economy and in the promotion of the country's industrialization. . . .

After the liberation, the peasants' enthusiasm for production in the field of individual economy was inevitable. The Party fully understands this characteristic of the peasants as small owners and points out that we must not ignore or brush aside the peasants' enthusiasm for production in this field.¹

¹*Mutual Aid and Co-operation in China's Agricultural Production*, Foreign Languages Press, Peking, 1953, pp. 1-2.

One of the important factors in the speedy recovery and development of agriculture and the marked improvement of the peasants' living conditions during a certain period following land reform was that the peasants' enthusiasm for individual production was given full play under the correct leadership of the Party and with the assistance of the state sector. But this individual production had its limitations and it soon became an obstacle to further development of the productive forces. Under it, the land and other means of production were owned by individual peasant households, each forming a production unit by itself. It was, therefore, impossible to introduce co-operation and division of labour in farming, nor was it possible to make rational use of the land, to adopt new farm tools, or to undertake capital construction which called for greater manpower and more materials. Labour productivity was low and, generally speaking, only the extension of simple production on a very limited scale could be carried out. If such relations of production had been allowed to remain for long, it would have been impossible to bring about a further increase in agricultural output. Natural calamities certainly had an adverse effect on the relatively slow development of agriculture in 1953 and 1954, but the main reason was that small-peasant production had exploited its own resources to the full and was impotent to cope with natural calamities.

Backwardness in agricultural production was bound to have an adverse influence on the development of industry and the national economy as a whole. Industrial development depended upon agriculture for the supply of grain and raw materials; it needed a rural market and drew part of its funds from the accumulation made

available by agriculture; which called for a corresponding development. When agricultural development slowed down, the impact on the growth of industry was felt immediately. In 1953 industrial production increased by 31.7 per cent over the previous year; in 1954 the increase was only 16.7 per cent; in 1955 it was further reduced to 7.8 per cent. The sudden drop in the rate of increase of industrial production in 1955 was primarily due to the slow increase in farm output in 1954, plus the failure of certain industrial crops as a result of natural calamities. This showed that it was impossible for large-scale socialist industry to develop successfully when it was encircled by a scattered and backward small-peasant production. Relations of production based on individual ownership had become an obstacle to the development of the social productive forces, and they were bound to be replaced by new and more advanced production relations.

There were two roads along which individual ownership could develop in this transition period: the capitalist or the socialist. Although big capitalist farms might have grown out of individual ownership and brought about a certain increase in production, the process would have been too slow and would have taken several decades. Even if capitalist farms had been established, they would have been greatly outnumbered by small farms based on individual ownership. Also this would of necessity have been accompanied by the painful process of mass bankruptcy among the peasants. The task during the transition period was not to develop capitalism, but to build socialism. Capitalism which represented backward relations of production rather than advanced would have impeded instead of promoted the development of social

production as a whole. Therefore, it was entirely impracticable to take the capitalist road.

Nevertheless, this does not mean that during the transition period possibilities did not exist for individual peasant economy to embark on the road to capitalism. If such individual production had been allowed to develop spontaneously, it would have evolved into capitalism. Certain peasants who had more favourable conditions for production might have become rich gradually and been new exploiters, i.e. rich peasants. Others who had less favourable conditions might have become helpless in the face of natural disasters and finally been reduced to the status of exploited poor peasants or farm labourers. Lenin said that small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale. It was simply wishful thinking to try and keep such small production for ever.

After land reform the actual state of progress in the rural economy showed that about half the poor peasants were raised to the status of middle peasants. This was because land reform had given the land-poor and landless peasants land and some other means of production and because this helped to boost production. At the same time, the economic status of about half of the rich peasants was lowered. The percentage of poor peasants in the total number of peasants dropped from approximately 60 to some 30; while that of middle peasants rose from approximately 30 to some 60. The number of middle peasants tended to increase. But such a tendency was but a temporary phenomenon and could not be maintained for long. Although during land reform, land was in the main distributed to the peasants on a per capita basis, yet, owing to the fact that the land holdings of the middle

peasants were left intact at that time, the share of land among the peasants was only approximately rather than absolutely equal. The difference in the peasants' possession of draught animals, farm tools and other means of production was even greater. Besides, the amount and strength of labour power also varied with each peasant household. Land reform did not wipe out the difference in the economic positions of the various strata of the peasantry. If rural economy had been allowed to take its own course, class differentiation in the countryside would have been inevitable. As a matter of fact, a differentiation had already begun to take shape shortly after land reform. Mao Tse-tung said in 1955:

What still lingers in the countryside is capitalist ownership by the rich peasants and individual peasant ownership—an ocean of it. Everyone has noticed that in recent years there has been a spontaneous and constant growth of capitalist elements in the countryside and that new rich peasants have sprung up everywhere. Many well-to-do middle peasants are striving to become rich ones. Many poor peasants, lacking sufficient means of production, are still not free from the toils of poverty; some are in debt, others selling or renting their land. If this tendency goes unchecked, the separation into two extremes in the countryside will get worse day by day.¹

This appraisal was confirmed by actual conditions in the countryside after land reform.

But the spontaneous tendency towards capitalism in China's countryside was not allowed to go unchecked.

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, Foreign Languages Press, Peking, 1959, pp. 31-32.

It was carefully and thoroughly restricted at the very outset and it never succeeded in becoming the main trend. The great majority of the peasants in China under the leadership of the working class wanted to take the socialist path. In the first place, land reform in China was carried out under the leadership of the proletariat. The Party did not "bestow" land upon the peasants by dint of government orders, instead it relied on the mass line by thoroughly arousing the peasant masses and awakening their class consciousness, especially that of the poor peasants. Through the peasants' struggle feudal landownership was abolished. Economically the landlords were eliminated as a class and the rich peasants greatly weakened; politically, the former were completely rooted out and the latter isolated. The awakened peasant masses came to realize that any exploitation was shameful, whether it were exploitation by the landlords or by the rich peasants. They refused to take the painful and selfish path of capitalism.

Secondly, land reform did not completely deliver the widest sections of the peasants from poverty, although their economic conditions were improved. In the country as a whole, each peasant had an average of three *mou* of arable land, each household possessing on an average no more than 14 *mou*. In many localities in South China, each peasant had only an average of one or even less than one *mou* of arable land. Other means of production were also scarce. According to a survey made in 1954, taking the country as a whole, each peasant household had, on an average, less than one draught animal, every two households a plough, and every ten a water-wheel. The poverty-stricken peasant households often had no draught animals or large farm tools and even if they did

possess a few tools, they either needed repair or were of poor quality. Chinese peasants always gave ungrudging labour to their land and farming was generally quite intensive. But they could not overcome the difficulties caused by working such small plots of land, and lack of draught animals, farm tools and fertilizer, to say nothing of dealing with natural calamities or man-made misfortunes. The poor peasants and the lower middle peasants particularly who accounted for 60-70 per cent of the rural population had greater difficulties to cope with and naturally they were very keen on taking the socialist road.

Thirdly, after land reform the Chinese Communist Party adopted a firm policy of restricting the spontaneous growth of capitalism and leading the peasants to the path of agricultural co-operation. Marxism-Leninism maintains that in order to build socialism in a country where small-peasant production predominates it is necessary to carry out not only socialist industrialization but also socialist transformation of agriculture. But the measures for implementing socialist transformation of agriculture are different from those for industrialization. Expropriation or nationalization may be used in dealing with the big capitalist industries, but it will never do to expropriate the property of the labouring peasants, nor to forcibly nationalize their means of production. Engels said:

... When we are in possession of state power we shall not even think of forcibly expropriating the small peasants (regardless of whether with or without compensation), as we shall have to do in the case of the big landowners. Our task relative to the small peasant

consists, in the first place, in effecting a transition of his private enterprise and private possession to co-operative ones, not forcibly but by dint of example and the proffer of social assistance for this purpose.¹

After the great October Socialist Revolution, Lenin further developed this basic tenet of Marxism and mapped out, on this basis, the plan for co-operation. He pointed out that under the conditions of the proletarian dictatorship, co-operation is the way for the transition from scattered, individual farming to large-scale, collectivization, the way which millions of peasants best accept and understand and which is to their best advantage. This gigantic plan of Lenin's has been translated into vivid reality by the Communist Party of the Soviet Union and the Soviet people. The Chinese Communist Party and Mao Tse-tung have always adhered to the universal truth of Marxism-Leninism in dealing with the peasant question and have drawn on the Soviet Union's rich experience in agricultural collectivization. They pointed out as early as in the period of the revolutionary wars that not only "land to the tillers" but also socialist co-operation must be realized in China's countryside. In the article *On Co-operation* published in 1942, Mao Tse-tung stated that agricultural co-operation was "the second revolution" in production relations in the countryside succeeding the reform of the feudal land system. At the Second Plenary Session of the Seventh Central Committee of the Party convened on the eve of the liberation of the country in 1949, speaking of economic construction after nationwide liberation, Mao Tse-tung said:

¹Karl Marx and Frederick Engels, *Selected Works*, Foreign Languages Publishing House, Moscow, 1955, Vol. II, p. 433.

If we have only a state sector in the national economy and no co-operative sector, it is impossible to lead the individual economy of the labouring people gradually on to the road of collectivization; we cannot consolidate the proletariat's leadership in the political power of the state. Anyone who ignores or underestimates this point will be making a grave mistake.¹

After liberation, the Central Committee of the Party adopted a series of decisions on agricultural co-operation. The economic aid and assistance extended in various forms to the co-operative movement by the state of the proletarian dictatorship went a long way in encouraging the socialist initiative of the broad sections of the peasants.

After land reform the struggle over which of the two roads to take in the development of rural economy was the main contradiction in the countryside. In 1953 Mao Tse-tung said:

If positions in the countryside are not held by socialism, capitalism will assuredly occupy them. How then can we say that we will take neither the socialist nor the capitalist road?²

As a matter of fact, class struggle after land reform was quite acute. The rich peasants and a section of the well-to-do middle peasants wanted to "make their families prosper and get rich," and demanded the protection of "four freedoms" (freedom to buy and sell land, freedom to rent their land to tenants, freedom to hire farm labourers and freedom to borrow and lend money). When

¹*Decisions on Agricultural Co-operation*, Foreign Languages Press, Peking, 1956, p. 38.

²*Ibid.*, p. 40.

the rapid growth of industry following large-scale economic construction in the country gave rise to a temporary shortage of agricultural products on the market, they took advantage of the situation to engage in speculative activities of hoarding grain and industrial raw materials and opposed the state policy of planned purchase and supply of grain and other farm products. This spontaneous tendency towards capitalism shown by the well-to-do peasants also reflected itself in the minds of a section of the Party and government functionaries who failed to discriminate between the requirements of the well-to-do peasants and those of the masses. They were well content with the way small-peasant production was being carried on; they attempted to "consolidate the new-democratic order" and went so far as to restrict the development of co-operation in 1955, with countless taboos and commandments when the upsurge of the co-operative movement was approaching. Right away the Central Committee of the Party and Mao Tse-tung criticized the theories of "spontaneity," such as "making the family prosperous and getting rich" and protecting the "four freedoms," and the Right deviation of being satisfied with the achievements of the democratic revolution and attempting to "consolidate the new-democratic order." Just before the upsurge in the movement for co-operation they also criticized the Right conservatism of hampering this rapid development. At the same time, the Party and the government set up supply and marketing co-ops and credit co-ops on an extensive scale throughout the countryside, gradually secured the leading position for the state sector over the rural market, and at the end of 1953 introduced the planned purchase and supply of grain, cotton, oil-bearing crops and some other

farm produce, thus dealing a severe blow to those engaged in speculation and usury. The Party and the government also led the peasants to form vast numbers of mutual-aid production teams which were embryonic forms of socialism and then to set up, on this basis, the agricultural producers' co-operatives. In this way individual ownership by the peasants was gradually replaced by socialist collective ownership and socialism won a decisive victory in the struggle against capitalism.

The Economic Conditions of Various Classes in the Countryside and the Class Line of the Party in Agricultural Co-operation. The Party's class line in the countryside was based on the attitudes taken by various classes towards the struggle about which road to take, the socialist or the capitalist one. What attitude a class took was determined in the long run by its economic conditions.

According to a survey made in 1954, class composition in the countryside after land reform was roughly as follows: Of the total number of households in the countryside, those of the poor peasants and farm labourers constituted 29 per cent; of the middle peasants, 62.2 per cent; of the rich peasants, 2.1 per cent; and of the former landlords, 2.5 per cent. The remaining 4.2 per cent of the peasant households were already in agricultural co-ops. This survey did not make a distinction between the upper and lower sections of the middle peasants nor between the poor and middle peasant households already in the co-ops. It was generally estimated that of the total number of peasant households the poor peasants and lower middle peasants constituted about 70 per cent, and upper middle peasants or well-to-do middle peasants about 30 per cent.

After land reform the poor peasants were still the worst off in their farming facilities. On the average each poor peasant household had only 11.7 *mou* of arable land, every two households one draught animal, every three households one plough and every 17 households one water-wheel. It was, therefore, extremely difficult for them to develop their production simply by relying on the very few tools they had on hand. Their meagre income was sometimes even insufficient to keep their families from hunger and cold. The lower middle peasants were economically a little better than the poor peasants, but they also had difficulties in production and their living conditions were far from being well off. They fully realized that small-peasant production could not withstand against any adversity. For them the capitalist road meant nothing but impoverishment and bankruptcy. In order to shake off poverty, improve their living conditions and protect themselves against natural calamities and famine, the only way was for them to organize and take the socialist road. In his article *The Question of Agricultural Co-operation*, Mao Tse-tung discussed the co-operative organized by three poor-peasant households in Nanwangchuang, Anping County, Hopei Province. He said: "The fact is, the road taken by these three poor-peasant households is the one which will be taken by 500 million peasants throughout the country."¹ Why had these three poor-peasant households persisted in taking the socialist road? It was mainly because they believed that the road pointed out by the Party was the only correct one to follow if they wished to deliver themselves

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, op. cit., p. 11.

from poverty. "In my case," said a member of this co-operative, "I've no alternative but to join the co-op."

The well-to-do middle peasants (the upper middle peasants) had more and better land than the poor and lower middle peasants. Generally speaking, they also had better draught animals and farm tools. Usually the well-to-do peasants possessed "thirty *mou* of land plus an ox." Their living standards were relatively higher because their productive conditions, management, crop yields and incomes were better than those of the poor and lower middle peasants. Therefore, their attitude towards the question of agricultural co-operation was different. Most of them vacillated, saying, "For the time being, we're not going to take this road. We shall wait and see." Some of them tried to take the capitalist road and, together with the rich peasants, resisted agricultural co-operation. They jeered: "Those fellows have less money than an egg has hair, yet they think they can run a co-op. Can a chicken feather fly up to heaven?" The attitude of the well-to-do middle peasants was, however, also different from that taken by the rich peasants. It was true that the well-to-do middle peasants were inclined towards capitalism. Because their economic conditions were not very much superior to those of the poor and lower middle peasants, however, they showed a willingness to join the co-ops, after the poor and lower middle peasants had extended mutual-aid and co-operation and displayed the superiority of collective labour and management by rapidly raising the yields and income to catch up with or surpass their own. They then realized it was more advantageous for them to join than to stay out and continue their individual farming.

The rich peasants constituted only a small proportion of the rural population. According to a survey made in 1954, each rich peasant household had on an average 34.6 *mou* of arable land, two draught animals, one plough, and every three households had one water-wheel. The survey also showed that 77 per cent of the households hired labour, with each household paying for, on an annual average, 79 workdays, of which 33 workdays were done by year-round farm hands. Also 41 per cent of the rich-peasant households sold labour, averaging 12 workdays from each household in a year.

From this we can see that compared with the well-to-do middle peasants, the rich peasants possessed even more land and other means of production and they were able to produce by relying partly (in some cases, mainly) on hired labour. Although their production was of the capitalist type, they possessed only twice or three times as much land as the ordinary peasant. They did not engage in large-scale production by renting land from others and hiring a great number of farm hands. On the contrary, their own labour still played an important role in production and some of them even rented out a portion of their land. This served to show that, as a capitalist type, rich-peasant farming in China was still in a low stage of development. Their capitalist activities were mainly directed towards commercial speculation and usury; their management of farming in a capitalist way did not show any marked advance; and their production did not display much superiority over that of the peasants working on their own. Under such circumstances, despite their opposition to the movement for agricultural co-operation, and their endeavour to undermine it together with the former landlords, the rich peasants failed to

put up any substantial resistance because of their limited number and weak economic strength.

Marxism-Leninism teaches that at the stage of socialist revolution the political party of the proletariat must rely closely on the poor peasants and consolidate its alliance with the middle peasants. This basic principle suited China perfectly. By a creative application of it, Mao Tse-tung formulated the class line that conformed to the concrete conditions in China. He pointed out:

If the working class and the Communist Party want to use the spirit of socialism and the socialist system to completely transform the system prevailing throughout the countryside of private ownership of the means of production in small-peasant holdings, they can do so relatively easily only by relying on the great mass of the former semi-proletarian poor peasants. Otherwise the transformation will be very difficult.

The rural semi-proletariat are not so insistent on private ownership of the means of production in small peasant holdings; they accept socialist transformation fairly readily.¹

To rely on the poor peasants does not mean to rely only on those poor peasants who were still in difficulties, but also on those who had become lower middle peasants after land reform. This was because the latter had a relatively higher level of political consciousness and often recalled the hard life they had led in the past and, consequently, they had a greater enthusiasm for socialism. Besides, the lower ranks of the old middle peasants were fairly close to the lower ranks of the new middle peasants,

¹*Socialist Upsurge in China's Countryside*, Foreign Languages Press, Peking, 1957, p. 236.

both in economic position and in political attitude and, therefore, they were different from the well-to-do middle peasants. Consequently, the pivotal force for carrying out agricultural co-operation consisted mainly of the active members among the poor peasants whose economic position had not improved and the lower ranks of the new middle peasants who were formerly poor peasants. It also included some of the active members among the lower ranks of the old middle peasants. The Party's first step in co-operation was to organize these people so that they might set an example to wider sections (including the poor peasants and the new lower middle peasants who were lagging behind in political consciousness) and convince them. When agricultural co-ops were set up, it was necessary to establish the dominant position of the poor peasants and the new lower middle peasants in the leadership of the co-ops.

The policy of uniting with the upper middle peasants (the well-to-do middle peasants) had to be observed. Although these relatively well-to-do peasants vacillated in their attitude towards agricultural co-operation, they would eventually take the socialist road. Therefore, it was necessary to wait patiently for them to change and, at the same time, restrict their capitalist speculation.

To consolidate a firm alliance with the middle peasants, the Party stipulated that the policy of voluntary participation and mutual benefit was one of paramount importance which must be strictly adhered to in the movement for agricultural co-operation. The political report of the Central Committee of the Communist Party of China to the Eighth National Congress of the Party pointed out:

This policy of voluntariness and mutual benefit holds good for everyone without exception, and for the middle peasants it is of still greater significance. The Party not only forbids dragging reluctant middle peasants into the co-operatives; it further lays it down that in the early stages of their development the co-operatives are to admit the poor peasants and the lower middle peasants first of all, and are generally not to take in the comparatively well-to-do middle peasants as members. Furthermore, the Party lays it down that both before and after the middle peasants join the co-operatives, their interests must not be infringed, and they must not be taken advantage of particularly when it comes to dealing with the means of production which they pool in the co-operatives. It goes without saying that the middle peasants are also not allowed to infringe upon the interests, or take advantage, of the poor peasants.¹

These stipulations played an important role in uniting the middle peasants and inducing them to take the socialist path.

The Party's policy towards rich peasant farming was one of restricting and gradually eliminating it. Neither the rich peasants nor the former landlords were allowed to join the co-operatives in the early stages of their development. Only when the co-operative movement was crowned with success were those rich peasants and former landlords who had given up exploitation and taken part in manual labour allowed to join group by group at different times and on certain conditions. They

¹*Eighth National Congress of the Communist Party of China*, Foreign Languages Press, Peking, 1956, Vol. I, p. 27.

were continually reformed by taking part in manual labour and in such ways the rich peasants disappeared as a class from the rural scene.

This history of the agricultural co-operative movement substantiates the fact that the Party's class line in the countryside was Marxist-Leninist and the only correct one.

Steps and Methods in Agricultural Co-operation. The transformation of individual small-scale peasant production based on private ownership of the means of production through co-operatives into large-scale production based on public ownership was an extremely profound revolution on the broadest scale. There was no doubt that such a revolution was in accord with the basic interests of the great mass of the peasants; but it did not follow that the peasants immediately became aware of their basic interests and were determined to realize them. After all, they were unfamiliar with the course of the change to be undertaken. If peasants were not awakened politically, they would not have discarded private ownership easily, though such ownership brought them disaster rather than happiness. In such circumstances it was absolutely impermissible to force the peasants into agricultural co-operation. To pool their land and other means of production into collective ownership in a hasty and compulsory way would only have led to the undermining of the worker-peasant alliance and pushed them onto the capitalist road. It would never have achieved its purpose of socialist transformation.

One of the basic principles of Marxism-Leninism is to attain the socialist transformation of agriculture through co-operation. It is universally applicable to all countries, where small-peasant farming predominates,

after the proletariat has secured political power. But, as conditions in various countries differ, the party of the proletariat must work out specific policies and measures for agricultural co-operation in the light of the characteristics of each country and those of its rural economy in particular. China did not start agricultural co-operation by pooling the peasants' land and other means of production at once as collective property, but, at first, rather catered to the small holding of the peasants so that later they would voluntarily give up private ownership of their own accord without feelings of reluctance or of haste. Instead the peasants were led onto the socialist road through gradual transitional economic forms of one kind or another on a wide scale. Taking into consideration the basic situation where the peasant masses were still having difficulties in developing production, and their long-standing tradition of helping each other in production, after land reform the Party set up supply and marketing co-ops and credit co-ops on a large scale and organized the peasants into large numbers of mutual-aid production teams. On the basis of individual management, the members of these teams worked collectively by exchanging labour, draught animals and farm tools. The system of private ownership was kept intact, while the demands of the peasants for developing production were met. With the spread of mutual-aid teams, the peasants saw the superiority of collective labour and felt the need to further increase their production through collective management. The Party promptly and in a well-planned manner guided the peasants to organize semi-socialist agricultural co-operatives, i.e. of the elementary type, characterized by pooling land as shares and unifying management, while still retaining the

private ownership of land and other means of production. Finally the peasants were led to turn their semi-socialist co-operatives into socialist ones, thus realizing the collective ownership of land and other means of production. Such transitional measures answered their crying needs at different stages and guided them so that they gradually attained their ultimate goal. The peasants gained continual benefits from the co-operative movement, adapted themselves gradually to collective production and finally accepted collective ownership of the means of production fairly readily.

In the co-operative movement, the Party not only adopted steps and policies suited to conditions in China, but consistently adhered to the mass line as its working method. The Party is not an overlord of the people or a philanthropic organization, but the vanguard of the working class and the servant of the labouring people. It is impossible to carry out revolution by issuing orders or by "bestowing favours." Even if the people obtain some temporary benefits from a revolution attained by such methods, such a revolution cannot have a solid basis and will not be able to stand tests. Confidence must be placed in the masses' ability to emancipate themselves. The mass line, therefore, was not only strictly adhered to during land reform but also in the movement for agricultural co-operation. Mao Tse-tung pointed out: "We must believe in the masses; we must believe in our Party: these are two cardinal principles."¹

How, then, were the masses aroused during the co-operative movement to take the socialist road voluntarily?

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, op. cit., p. 9.

According to the experience gained, briefly the following methods were used:

First, the work of ideological education had to be carried out conscientiously, intensively and earnestly as well as vividly among the peasants in line with their practical experience in life. The main purpose of such education was to drive home the merits of socialism and co-operation by extensive propaganda and to criticize the spontaneous tendency towards capitalism. Mao Tse-tung said:

The birth of a new social system is always accompanied by a great uproar and outcry, proclaiming the superiority of the new system and criticizing the backwardness of the old. To bring our more than 500 million peasants through socialist transformation is a project of earth-rocking, heaven-shaking dimensions which cannot possibly be achieved in an atmosphere of calm seas and gentle breezes. It demands of us Communists that we patiently educate the great mass of the peasants — who are still burdened with many of the habits and ideas of the old society — and explain things to them in vivid terms which they can easily understand.¹

Secondly, it is necessary to keep in close contact with the masses by employing the organizational method known as “taking root and sending forth branches,” to discover and train the active elements among the poor peasants and farm hands and, through them, form ties with the masses and set them in motion; push forward the mass movement for co-operation by using the method of “spreading the experience gained in special points to the whole area,” and “co-ordinating work at the points

¹*Socialist Upsurge in China's Countryside*, op. cit., p. 253.

with that of the whole area," rather than stirring up all the villages at one stroke regardless of the objective conditions and the level of political consciousness attained by the people living in them.

Thirdly, the cadres and masses had to steel and remould themselves through struggle. In the co-operative movement local cadres had to be always relied upon as the main force; they were encouraged to improve themselves through work. Cadres sent down from above were an auxiliary force, their function being to help guide the work instead of taking everything into their own hands. If any wrong tendencies occurred in the movement, the cadres had to persuade the masses to correct them by themselves instead of throwing cold water on them to hamper their initiative. Mao Tse-tung said:

We should treasure, not hinder, every bit of socialist initiative shown by peasants and cadres. It is our job to live with, breathe the same air as the members and cadres of the co-operatives and the county, district and *hsiang* (township—*Tr.*) cadres, not hamper their initiative.¹

From the analysis made in the above, it is clear that the development of the socialist state sector, the leading position securely established by socialist trade in rural markets, the economic aid of the state to the peasants and the further consolidation of the economic alliance between the workers and peasants were the important prerequisites for the agricultural co-operative movement. The economic conditions of the various strata of the peasantry and the resultant socialist initiative of wide sections of

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, op. cit., p. 10.

the peasants were the objective basis for the successful and rapid realization of the co-operative movement. Under such circumstances, the Party adopted measures and policies which suited the actual conditions in China, particularly the economic conditions in the rural areas and the needs of the peasants. These, in general, constituted the class policy of relying on the poor peasants and uniting firmly with the middle peasants, the step-by-step transition from the elementary to the advanced type, and the working methods of the mass line. The co-operative movement thus developed in a comparatively smooth and natural way and avoided such damage as might have occurred if changes had been effected too abruptly. Not only were the impoverished and not so well-off peasants led to accept socialism, but the capitalist tendencies of the well-to-do middle peasants were also overcome which helped them to take the road to socialism. The rich peasants were completely isolated economically and finally had to give up capitalist exploitation. Despite the fact that the co-operative movement passed through many complicated transitional forms, co-operation was brought about very quickly because, on the whole, the movement was fairly steady and natural. What is more, during this revolutionary change, agricultural production was not disrupted and there was no social disorder. On the contrary, agricultural production constantly increased during the progress of the co-operative movement. All this fully demonstrates the complete correctness of the Party line and its policies for agricultural co-operation.

2. The Development and Progress of Agricultural Co-operation

Agricultural co-operation in China, generally speaking, began with such transitional forms as mutual-aid production teams and producers' co-operatives of an elementary type and passed on to agricultural producers' co-operatives of an advanced type.

Mutual-Aid Teams. Mutual aid by exchange of labour was a traditional practice of Chinese peasants. Back in pre-liberation days, when they laboured under the exploitation of both landlords and rich peasants, they more or less adopted various forms of mutual aid by exchanging labour as a means of surmounting their difficulties and trying to keep up with their farm work. At that time, mutual aid by the exchange of labour was a manifestation of the impoverishment of the peasants. Later, under the leadership of the Communist Party it became the most elementary form of transition in guiding them on to the road to socialism.

During the several revolutionary wars, agricultural mutual-aid organizations had already developed in the revolutionary bases under the guidance of the Communist Party and the revolutionary government. There were labour mutual-aid societies and ploughing teams in the revolutionary base in Kiangsi Province during the Second Revolutionary Civil War (1927-36) and labour exchange teams, mutual-aid and other similar organizations in the various anti-Japanese bases during the War of Resistance to Japanese Aggression (1937-45). At the time of the War of Liberation, large numbers of mutual-aid teams were formed in the liberated areas in North, East and Northeast

China, which were more widely developed after the founding of the People's Republic of China.

In December 1951, in accordance with the developing movement for mutual aid and co-operation in the countryside, the Central Committee of the Chinese Communist Party formulated the "Decisions on Mutual Aid and Co-operation in Agricultural Production." These laid down detailed and comprehensive provisions governing the policies on mutual aid and co-operation. The decisions were then passed on to the Party committees in all parts of the country to be put into practice experimentally and, in February 1953, they were officially published by the Central Committee as a formal resolution. From 1952 onwards, under the guidance of these policies, the movement for mutual aid and co-operation advanced at a quicker rate than before. In 1952 by the time of the autumn harvest, 40 per cent of the country's peasant households had joined mutual-aid teams.

These teams were an elementary form of transition from individual peasant production to socialist agriculture. The peasant household which joined a team still owned its own land and other means of production and carried on farming independently. The peasants engaged in collective labour on the basis of individual management and made common use of certain draught animals and farm tools. The mutual-aid teams were of two types. The first was the temporary or seasonal mutual-aid team. It was generally organized on a small scale and the collective labour expended by the members was limited to certain most important farm work in the busy seasons. The second type, the year-round mutual-aid team, was organized on a bigger scale. Its members worked together doing important farm work all the year round. They

might, according to the needs and the degree of their collective consciousness, gradually accumulate a small amount of common property such as farm tools and draught animals.

On the whole, each peasant household in the mutual-aid teams still engaged in individual production. The collective labour of its members was effected through the common use of labour power and such means of production as draught animals and farm tools, which remained privately owned. That is to say, the members might use one another's labour power and certain means of production on their own plots. Any disparity in the reciprocal use of labour power, draught animals and farm tools had to be made good in cash or kind. Collective labour, however, changed agricultural organization and imbued the peasants with the idea of collectivism. Under the historical conditions existing during China's transition period, collective labour in mutual-aid teams — the first shoots of socialism — successfully led the peasants to accept collective management. This was made possible by the leading role of the socialist state sector in the national economy as a whole, by the connections the state sector had established with rural trade and credit, and by the guidance of the Communist Party's policy for agricultural co-operation. In some year-round mutual-aid teams, socialist factors increased with the accumulation of a small amount of common property.

In production, mutual-aid teams proved themselves to be definitely superior to peasants who worked individually. Through collective labour and the common use of some draught animals and farm implements, the mutual-aid teams were not only able to overcome to a certain extent difficulties caused by the shortage of these things

or of labour power, and fight against natural calamities with collective effort, but also to quickly raise their labour productivity. Available data showed that the labour productivity of mutual-aid teams was in general 10-30 per cent higher than that of the peasants who worked on their own. This was especially true with some year-round mutual-aid teams. They were in a better position to expand their agricultural production and side-occupations, since they were able to work out simple production plans, carry out division of labour according to the special skill of their members, possess in common a small amount of the means of production for common use, and to extend mutual aid to side-occupations. That is why mutual-aid teams not only found favour with those poor peasants and lower middle peasants who were short of draught animals and farm tools but were attractive to those well-to-do middle peasants who had relatively more land, draught animals and farm tools but were hard pressed for labour power.

The development of such teams did, to some extent, limit the tendency towards hiring labour and leasing land, draught animals and farm tools. Once in the mutual-aid teams the impoverished peasants were able to pull through their difficulties in production by their collective labour and thus freed themselves from the rich peasants' exploitation. The relations between poor and middle peasants were properly readjusted according to the principle of mutual benefit by making rational use of manpower, draught animals and farm tools and by reasonably fixing the ratio in the exchange of man and animal traction power. On the basis of increased production the economic position of the mutual-aid team members as a whole was improved to some extent.

There were, however, contradictions in these teams, mainly those arising between collective labour and individual management, the latter hampering the former. Therefore, it was extremely difficult to make full and rational use of labour power, draught animals and farm implements and to plan the farm production properly. Individual management made it impossible to put the land to rational use, while the conditions of land management by the member households, the amount of labour and means of production expended on their own land and the degree of intensive cultivation all differed greatly because of differences in the economic conditions between one member household and another.

When collective labour was carried out on the basis of individual management, it was impossible to overcome the contradictions between the poor and middle peasants, especially the upper middle peasants, even though the relations between them were readjusted in accordance with the principle of mutual benefit. Those member households with better economic conditions, by reason of the fact that they owned more land and other means of production, could still expropriate a part of the labour of other member households through exchange of labour and mutual aid and thus obtain greater returns. True, collective labour in mutual-aid teams helped to improve the economic conditions of member households, but under individual production, it was still impossible to completely check the tendency towards differentiation among the peasants.

Because of all this, the raising of labour productivity and the growth of production in these teams was limited. When agricultural co-operation mainly took the form of

mutual-aid teams, the growth of agricultural production naturally lagged far behind that of industry.

In time, the contradictions within the mutual-aid teams and those between agriculture and industry inevitably demanded the replacement of these teams by a new and more advanced form of co-operation which was the agricultural producers' co-operatives of an elementary type.

In general it was easy for the mutual-aid teams to switch over to an elementary type of producers' co-operative. This was because, as they grew, the mutual-aid teams themselves had created favourable conditions for their transition to a more advanced form. The peasants participating in the teams had gradually become used to collective labour and become aware of its advantages. Collective labour had formed a fixed and regular connection in productive activities among some of the member households. Moreover, common ownership of a small amount of the means of production in certain year-round mutual-aid teams had linked one member household with the other in matters of property. Under such circumstances, it was rather easy for the peasants to accept the elementary type of agricultural producers' co-operatives, which were characterized by the pooling of land as shares and collective management in place of the mutual-aid teams.

The Elementary Type of Agricultural Producers' Co-operatives. Prior to the birth of New China, agricultural producers' co-operatives appeared in the liberated areas though not on an extensive scale. After the founding of New China, the Communist Party led the peasant masses to form large numbers of mutual-aid teams and, on that basis, began to organize agricultural producers' co-operatives. By the end of 1952, the num-

ber of this elementary type of co-operative (i.e. semi-socialist) had exceeded 3,000 and, in 1953, it grew to 15,000 with a membership of 275,000 peasant households. In the second half of 1953, the Central Committee of the Chinese Communist Party put forward the Party's general line for the transition period. This was followed by starting a vigorous campaign to publicize the general line and introducing the policy of planned purchase and supply of grain and other major agricultural products. All this played an important role in weakening capitalist influence in the countryside, checking the spontaneous tendency towards capitalism among the peasants and enabling them to take the co-operative road of their own accord. In December 1953, the Central Committee of the Chinese Communist Party formulated the "Decisions on the Development of Agricultural Producers' Co-operatives." Taking into consideration the social conditions of the whole country, especially the development of the rural economy, as well as the advantages of the agricultural producers' co-operatives of the elementary (semi-socialist) type and the increasingly important role they were playing in the movement for mutual aid and co-operation, the Party put forward in these decisions the policy of "active leadership and steady progress" to all Party members. The movement for mutual aid and co-operation was to be pushed forward with attention centred on the development of the agricultural producers' co-operatives.

The promulgation of these decisions was followed by a rapid development of these co-operatives. By the autumn harvest in 1954, their number had jumped from 15,000 in 1953 to over 114,000. By the autumn harvest of the following year, the figure had exceeded 630,000, with a

membership of more than 16,900,000 peasant households.

The agricultural producers' co-operatives of the elementary type were marked by the pooling of land as shares and unified management. This showed that the change-over from an individual production in which the peasants worked on their own or in mutual-aid teams to agricultural producers' co-operatives based on partially collective ownership brought about significant changes in the production relations.

Regarding the ownership of the means of production, the peasants who joined a co-operative of the elementary type, generally speaking, still owned land, draught animals and large farm tools. On the other hand, the co-operative had its own common property, part of which was the share funds contributed by the members when they joined it and the other was the co-operative's reserve fund. The privately-owned land, draught animals and farm tools were then put under the unified control of the co-operative instead of being separately used by their owners. Besides, when conditions were mature, the draught animals and farm implements could be converted into common property by paying the owners for them. In this way, the co-operative was able to organize its members in collective production while it still preserved in the main their ownership of the land and other means of production.

With such changes in the ownership and use of the means of production, the labour of the peasants who joined the co-operatives also underwent a change in nature. They no longer expended labour in their own individual production as they had done when working on their own, nor did they exchange their labour as a

private productive factor the way they had while in mutual-aid teams. They now put their labour at the disposal of the co-operative as part of its entire labour force. It was, therefore, possible for the co-operative to make planned and centralized use and distribution of its entire labour power and to organize co-operation in labour on a bigger scale.

In the light of these characteristics, the distribution of products in a co-operative took a distinctive form. The aggregate agricultural and side-occupational products of the co-operative, after a part was deducted to meet the depreciation of the means of production, formed its total income. Of this total income a part went to the state for taxes and for the reserve and welfare funds of the co-operative while the rest was distributed among the members in such basic forms as payment for work, dividends on land and payment for other means of production.

That part of the co-operative's total income which went for taxes to the state and for the co-operative's reserve and welfare funds represented, in fact, a part of the fruits of the members' labour which went to satisfy the common needs of society as a whole and of the co-operative itself. The reserve and welfare funds were used for expanding production and improving the living conditions of the members, while the taxes were mainly used by the state for the country's industrialization or as investments in agriculture to speed up its mechanization and electrification. All this conformed to the long-term interests of the co-operative members themselves.

The reserve fund was the chief source of the co-operative's common funds. The greater the reserve fund, the greater the possibilities for the co-op's expansion in production, and the more consolidated its common under-

takings. The ratio between the reserve and welfare funds on the one hand and the personal income of the members on the other was fixed in accordance with the principle of properly integrating the public interests of the co-operative with the personal interests of its members. In other words, on the one hand, the co-operative had to meet the needs of its own expanded production and public welfare and, on the other, it had to ensure that the great majority of its members gradually increased their income as production increased. Experience proved that to ensure an increase in income for the great majority of its members, it was inadvisable for too big a proportion of its total income to be placed in the reserve fund when a co-operative was just set up. Later, as production increased, the proportion allocated to its reserve fund could be raised.

The portion set aside in the total income of the co-operative as payment for work was distributed in accordance with the principle of "to each according to his work." Payment for work was mainly reckoned in workdays or work-points. The members were paid in cash and kind according to the quantity and quality of their work. In some co-operatives, a system of awards to members who overfulfilled their output norms calculated on the basis of seasonal or yearly quotas, as a kind of contract, was enforced. Such a principle and form of distribution, which was suitable to the level of development of the productive forces at that time, combined the members' personal interests with the collective interest and stood the co-operative in good stead in stimulating their production enthusiasm.

The dividends on land differed in nature from the payment for work. The co-operative distributed part of

its products as dividends on land, because the members still owned their land while putting it at the disposal of the co-operative. These products set aside for dividends on land were also the fruits of its members' labour. They were distributed not, according to the amount of work done but to the amount of land the members pooled as shares in the co-operative when they joined it. The ratio of the labour expended by each member to the total labour of the co-operative very often did not correspond with the ratio of the land pooled by him to the total amount of land used by the co-operative. Because of this the dividends on land received by those members with more land and better economic conditions included a part of the fruits of other members' labour besides their own. Even so, the advantage gained by these members in the form of dividends on land was small. This was because land reform in China had resulted in a fairly even distribution of land, the income of the co-operatives was distributed mainly in accordance with the principle of "to each according to his work," and only a small portion of the total income of the co-operatives went to dividends on land.

Of the payment made for the use of certain privately-owned draught animals and farm tools to their owners, a part was to cover depreciation, while the rest was the interest on the value of these animals and tools.

Payments of dividends on land and for the use of privately-owned draught animals and large farm tools were made by the elementary type of co-operative because of the characteristics of the peasants as small owners and their predilection for private ownership. They were also meant to regulate the relations between the poor and middle peasants, because, on the basis of in-

creased production, not only the poor peasants with less land and other means of production might increase their income but the middle peasants — especially the well-to-do middle peasants — in possession of more land and other means of production, might also increase, or at least not reduce, their income. By so doing, both the poor and middle peasants would benefit. Besides, dividends on land helped those member households which, though given land during the land reform, were short of labour power. All these steps made possible the gradual transition from private ownership of the means of production to common ownership. These not too abrupt changes facilitated the growth of the productive forces in agriculture and the consolidation of the co-operatives.

A suitable ratio between dividends on land and payment for work was fixed. In principle, the former was lower than the latter. With the expansion of production, the proportion of the former became gradually smaller while that of the latter bigger. This encouraged the members' enthusiasm for work and assisted the transition to common ownership of the means of production.

To summarize the analyses made above, in this elementary type of co-operative the means of production owned in common increased every year, while the privately-owned land, draught animals and farm tools were used by the co-operative. Unified management and collective labour were carried out. The members' personal income was determined mainly by the principle of "to each according to his work." All this showed that co-operatives of this type had more socialist elements than the mutual-aid teams. On the other hand, the members generally retained the private ownership of their land and other means of production by which they earned a certain

amount of income. This meant that co-operatives of this type still preserved private ownership to a certain extent. They were, therefore, semi-socialist economic organizations based on partial collective ownership.

These co-operatives had greater advantages than the mutual-aid teams. Through unified management, scattered, individual small production was changed into large-scale collective production. It was possible for the co-operatives to better exploit the potentials of the land, make rational use of it and other means of production, and use labour power in a more rational and planned way than had been done by mutual-aid teams. They organized labour co-operation on a larger scale with a more precise division of work, and gave full rein to the special skill of each member — all of which stimulated a higher labour productivity. The co-operatives had more funds and labour power to engage in side-occupations, which could be combined with agriculture to develop a diversified economy. They undertook capital construction projects, such as water conservancy and land reclamation, which were previously out of the question. Furthermore, as the members' income was distributed mainly according to the principle of "to each according to his work," by which those who did more and better work were paid more, the members' enthusiasm for work was brought into full play. They were encouraged to take a greater part in both agriculture and side-occupations and to put their hearts into the study of production techniques. All this brought production to a much higher level than that reached by the mutual-aid teams. As shown by the results of investigations made in 1951 by the Ministry of Agriculture in 40 agricultural producers' co-operatives in North and Northeast China, the average

per-mou yield registered by these co-operatives was 16.4 per cent higher than that achieved by local mutual-aid teams and 39.2 per cent higher than, and in the best case doubled, that by peasants working on their own. No wonder the peasants said: "Mutual aid is better than working on our own and co-operation is better than mutual aid!" As a result of the rapid growth in production, members of co-operatives generally earned more than peasants who worked on their own.

Since socialist elements existed side by side with private elements in the co-operatives of the elementary type, it was inevitable that contradictions should appear — the contradictions between unified management and collective labour on the one hand and the private ownership of land and certain other means of production on the other. True, the change-over from individual production to these co-operatives had given a dynamic impetus to the development of the productive forces. But the existence of inner contradictions was bound to obstruct their further advance. First, the fact that the members of the semi-socialist co-operatives retained their private ownership of the land inevitably placed restrictions on its rational use and on the undertakings of capital construction in agriculture, such as water conservancy, changing the lay of the land and soil improvement. Secondly, so long as the members still retained private ownership of draught animals and farm tools, it was difficult to make the most rational use of them while many troubles arose in the feeding and breeding of draught animals. Thirdly, as the land, draught animals and farm tools were still privately owned, it was necessary for the co-operatives to distribute part of its farm produce to the members in the form of dividends on land and pay-

ment for the use of some other means of production. Under this system of distribution, some members did more or less take a part of the fruits of the labour of others. To some extent this adversely affected the members' working enthusiasm.

In order to completely resolve these contradictions, further release the productive forces from the fetters of the peasants' private ownership, keep pace with and push forward the industrial development, it was imperative, as conditions matured, to transform these semi-socialist co-operatives based on partial collective ownership into socialist co-operatives based on full collective ownership.

In this change-over, steps were taken to ensure mutual benefit and voluntary participation of all members and the development of production, while seeing that the great majority of the members raised their income with the increase in production. To guarantee an increase in income was, in essence, a question of readjusting the relations between the poor and middle peasants. To the poor peasants the abolition of private ownership of land and other means of production and of the remuneration for them did, generally speaking, help to increase rather than reduce their income. But to the well-to-do middle peasants who owned more land and other means of production, it sometimes led to a reduction of their income at least until production reached a higher level of development. So that both poor and middle peasants might benefit, conditions were created whereby the middle peasants might increase their income, or at least not suffer from its reduction. Meanwhile, due consideration was given to those member households who had difficulties in maintaining a living because of shortage of labour power. Mao Tse-tung pointed out:

This work must be co-ordinated with general plans to expand production. When people see that large and advanced co-operatives are better than small and elementary co-operatives, when people see that long-range planning brings them a life of a much higher material and cultural level, they will agree to combine their co-ops and build advanced ones.¹

As a matter of fact, in the course of its development, the co-operative of the semi-socialist type had gradually created the necessary conditions for its own transition to a socialist type. Its unified management and collective labour as well as the advantages demonstrated by the co-operative itself, for instance, inculcated in the members a profound socialist spirit, i.e. education in socialism, and further raised their socialist consciousness. With the growth of production and the increasing accumulation of commonly-owned means of production, privately-owned draught animals and farm tools became relatively less important economically. Of the greatest importance was the fact that the rapid, year-by-year increase in the output of the co-operatives resulting from the advantages of large-scale production made it possible for them to guarantee increased income for the great majority of their members when the time came to abolish the private ownership of land and other means of production.

Agricultural Producers' Co-operatives of the Advanced Type. At the time of the autumn harvest in 1955, there were already more than 500 agricultural producers' co-operatives of the advanced type, embracing some 40,000 peasant households. During the upsurge of agricultural

¹*Socialist Upsurge in China's Countryside*, op. cit., p. 478.

co-operation in the winter of the same year, agricultural producers' co-operatives of the elementary type began to change over to the advanced type in large numbers.

This new type of co-operative was based on common ownership of the means of production. Land, draught animals and farm tools were no longer owned privately by the members but were the common property of the co-operative.

In China, common ownership of land was not effected immediately by resorting to nationalization. It was achieved by gradually turning the land as private property into the collective property of the co-operative members in the course of transforming agricultural producers' co-operatives of an elementary type into those of an advanced type. Common ownership of draught animals and farm tools was brought about, in accordance with the principle of voluntary participation and mutual benefit, by turning them over to the collective ownership of the co-operative after paying their owners. No household goods, small kitchen gardens, scattered trees, poultry, domestic animals, small farm tools or those needed for subsidiary cottage occupations were turned into common property.

With the establishment of the common ownership of the means of production, the relation between the members was completely changed into one of a socialist type marked by equality and mutual assistance. In the distribution of the co-operative's products, dividends on land and payments for draught animals and farm tools were dispensed with. The aggregate products of the co-operative, except for meeting the depreciation of the means of production, paying taxes to the state and accumulating common funds within the co-operative, were

all distributed to the members according to the quantity and quality of their work. This was a significant change in the production relations, which showed that the semi-socialist co-operative had advanced to a socialist one.

Co-operatives of the advanced type had more advantages than the elementary ones. By thoroughly eliminating the contradiction between unified management and collective labour on the one hand and private ownership of land and other means of production on the other, which the elementary type could not do, they made more rational use of their land and other means of production and carried out capital construction on a large scale. Besides, by abolishing payment of dividends on land and for the use of the other means of production and introducing the principle of "to each according to his work," the members' working enthusiasm was further enhanced. Endowed with more favourable conditions for the exploitation of their land and labour power, the co-operatives of the new type registered higher labour productivity and output. They also made better plans for their productive work.

The Upsurge of the Agricultural Co-operative Movement and Practical Completion of Agricultural Co-operation. The great upsurge in China's agricultural co-operation began in the second half of 1955. This was the logical outcome of the development of social economy.

First, 1955 was the third year of the First Five-Year Plan, when the country's socialist industrial construction was crowned with outstanding successes. This demonstrated the superiority of the socialist economy and fired the peasants' enthusiasm for forming agricultural co-operatives. On the other hand, the drop in the output of farm crops in 1954 had adversely affected the tempo

of industrial development and China was faced with the urgent need of transforming her backward, scattered, individual agricultural production into advanced, collective and large-scale production and increasing output to ensure the rapid development of socialist industry.

Secondly, the movement for mutual aid and co-operation in China had a quite long history and notable successes had been achieved. By June 1955, the number of producers' co-operatives had exceeded 630,000, a few of which were of the advanced type. The superiority of co-operative farming was proved conclusively by the fact that over 80 per cent of the co-operatives throughout the country registered increased output in 1955. This was bound to encourage millions of peasants to turn away from the capitalist road and take the socialist one of co-operation. In July 1955 Mao Tse-tung said in anticipation: "The tide of social reform in the countryside — in the shape of co-operation — has already reached some places. Soon it will sweep the whole country."¹

That 500 million peasants took the socialist road was a change of great historic significance which was bound to face opposition of all kinds. The opposition rose from the hostile classes, namely, the former landlords, rich peasants and other capitalist exploiters in the countryside. There was also a spontaneous tendency towards capitalism among some peasants (mainly the well-to-do middle peasants), their prejudices and habits having been formed over a long period of individual production. Since such forces existed in society, it was natural that they were reflected in the ranks of the Communist Party. Echoing these forces of capitalism outside the Party,

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, op. cit., p. 1.

some Party members raised countless taboos and conventions against the great movement for agricultural co-operation. They claimed that the slogan of "bringing about co-operative farming in three years" raised by the peasant masses was nothing short of an illusion and that co-operation could be effected fairly quickly in North China but not in South China. They also asserted that co-operatives could never be successful in backward townships, mountain regions, national minority areas, areas inhabited by many nationalities in a single community and areas frequently visited by natural calamities. According to them it was easy to establish co-operatives but difficult to consolidate them; the peasants were too poor to contribute funds to the co-operatives; and they were illiterate and could not supply the co-operatives with qualified accountants. They even declared that the co-operatives would create a large surplus labour power for which there would be no solution; that the more the co-operatives, the more the troubles, and that the political consciousness of the masses and the experience of the cadres could not catch up with the co-operatives' rate of development. They alleged that the Party's policy of planned purchase and supply of grain and that of agricultural co-operation had dampened the peasants' enthusiasm for production and that if the Party did not change its policy of agricultural co-operation, it was liable to break up the worker-peasant alliance, and so on and so forth. Not content with such a clamour, some of these people went so far as to actually restrict the development of the co-operatives and, adopting the policy of what they called "drastic compression," they dissolved large numbers of them.

These Right conservatives, however, failed to check the rising tide of agricultural co-operation. On July 31, 1955, at a meeting of the secretaries of provincial, municipal and autonomous regional committees of the Chinese Communist Party, Mao Tse-tung delivered a report entitled "The Question of Agricultural Co-operation." This was a programmatic document guiding the great socialist revolutionary movement in China. In it Mao Tse-tung analysed the political and economic conditions in the countryside from the Marxist-Leninist point of view; summed up experience gained in the movement for agricultural co-operation; clearly laid down the class line to be taken in the socialist transformation of agriculture; explained the interdependent relation between industry and agriculture and pointed out that, under China's conditions, co-operation must come before the gradual realization of mechanization of agriculture. At the same time, he exposed Right conservatism in its true colours, thus giving a dynamic impetus to the socialist enthusiasm of the working people. Soon after the report was published, the tide of agricultural co-operation swept the whole country. The number of co-operatives doubled in the short period from June to October 1955. In October, on the basis of Mao Tse-tung's report, the Seventh Central Committee of the Chinese Communist Party, at its Sixth Plenary Session (enlarged), adopted the "Decisions on Agricultural Co-operation." By the end of December, agricultural co-operatives were set up throughout many of the country's provinces and city outskirts. In most of the provinces which were liberated later, about 50 per cent of the total peasant households joined the co-operatives. When describing this significant change, Mao Tse-tung wrote:

The first half of 1955 was murky and obscured by dark clouds. But in the latter half, the atmosphere changed completely. Tens of millions of peasants swung into action. In response to the call of the Central Committee, they adopted co-operation.¹

By the end of June 1956, more than 110 million peasant households or 91.9 per cent of the country's total had joined co-operatives; more than 76 million households or 63 per cent of the total joining co-operatives of the advanced type. Between April and September 1956, the co-operatives were streamlined and consolidated. Then they were either expanded, merged or changed from the elementary to the advanced type. By the end of the year, 96 per cent of the country's peasant households had joined the co-operatives, 88 per cent being in the advanced type. All this shows that agricultural co-operation had been established practically throughout the country.

The basic realization of agricultural co-operation opened a broad avenue along which China's agricultural production could more rapidly develop. During 1956, the first year of the establishment of the co-operatives on a nationwide scale, serious natural disasters occurred. Agriculture, however, passed the test. Led and supported by the Communist Party and the government, the peasants in all parts of the country made full use of the advantages of their co-operatives and succeeded in increasing production. In 1956, both the gross output value of agriculture and amount of grain production registered a notable increase, exceeding their respective targets set for 1957, the last year of the First Five-Year Plan. With

¹*Socialist Upsurge in China's Countryside, op. cit., p. 159.*

the exception of the areas more seriously affected by natural disasters, over 75 per cent of the peasant households throughout the country enjoyed increased income to a varying degree; 15 per cent of them showed neither increase nor decrease; and only about 10 per cent received a smaller income. Following the basic realization of agricultural co-operation, the Central Committee of the Chinese Communist Party put forward a great programme for the building of a socialist countryside — “the National Programme for Agricultural Development (1956-1967).” According to this programme, the system of agricultural co-operation was to be consolidated and energetic efforts were to be exerted to raise the output of grain, cotton and other crops. It was reckoned that in the 12 years beginning with 1956 the average annual per *mou* yield of grain should, according to natural and economic conditions existing in the different localities be raised to 400, 500 or 800 catties and ginned cotton, to 60, 80 or 100 catties. The programme also required that within the period of the Second Five-Year Plan the level of the output and income of most of the country’s co-operatives should reach or surpass that of the local well-to-do middle peasants. Also that within 12 years a big leap forward, wherever necessary and possible, should be made in agriculture and in all other spheres of rural work.

Had it not been for the realization and consolidation of agricultural co-operation, it would have been naive to think of such unprecedentedly rapid development of agricultural production.

In 1956, besides the great successes achieved on the agricultural front, industrial production advanced at lightning speed, thanks to the impetus given by agricul-

tural co-operation to the socialist transformation of handicrafts and capitalist industry and commerce. Compared with 1955, the value of industrial output increased 31 per cent and state investment in capital construction 62 per cent. Thus conditions were created for the further consolidation of the worker-peasant alliance, both politically and economically.

With this upsurge in agricultural co-operation, conditions were ripe for the elimination of rich-peasant farming. During the period of the democratic revolution, in light of the concrete conditions existing in China, the Communist Party adopted the policy of preserving rich-peasant farming. During the period of the socialist revolution, however, this was superseded by a new policy of first restricting exploitation by the rich peasants and then gradually dispensing with them as a class. Prior to the upsurge in co-operation, no steps had been taken to eradicate the rich peasants as a class. Mainly through the development of mutual aid and co-operation in production, in supply and marketing and in the credit system, restrictions were placed on their exploitation of hired labourers, their speculative commercial activities and their practice of usury. The state policy of planned purchase and supply of grain and other major agricultural products played a decisive role in restricting the economic activities of the rich peasants. As a result of these restrictions, they were greatly weakened economically so that some of them were unable to continue their exploitation. Nevertheless before the upsurge in agricultural co-operation, the rich peasants, as a class, were not completely isolated economically. They not only maintained some contact with the capitalist sector in the cities but took advantage of

the spontaneous capitalist tendency of the peasants working on their own (especially the well-to-do middle peasants) to oppose the socialist transformation of agriculture. Thus, only by pushing forward the movement for agricultural co-operation and by winning over the middle peasants (including most of the well-to-do middle peasants) to the socialist side were the rich peasants finally isolated. Only then was it possible to change the policy of restricting them to one of removing them as a class.

The concrete method of achieving this end was to admit them into agricultural producers' co-operatives. Before the upsurge in co-operation, co-operatives had not been extensively organized and rich peasants were definitely excluded. The aim was to ensure the smooth progress of agricultural co-operation and prevent the plots and disruptive activities of those rich peasants who broke the laws. During the high tide of agricultural co-operation, a fundamental change took place in the relative strength of classes in the countryside. Most of the rich peasants, seeing the general trend, knew that it was impossible to take the capitalist road. They had no alternative but to ask to join the co-operatives. It was, therefore, thought advisable to admit into the co-operatives those rich peasants who were ready to accept reform. So, considering each specific case on its own merits and on the condition that they gave up exploitation completely, rich peasants were admitted in different capacities. Some became full members, others were denied membership until they had worked in the co-operatives for a period of time and had been approved by a general meeting of members. After joining the co-operatives they were given equal pay for equal work, so

that they might change into working people living by their own labour. The membership of the former landlords was dealt with generally in the same way as that of the rich peasants.

The basic completion of agricultural co-operation throughout the country and the disappearance of the rich peasants as a class showed that the question of socialist transformation of the ownership of the means of production in the countryside had in the main been solved. This, however, does not mean that the socialist transformation of agriculture was wholly completed. Through agricultural co-operation, the peasant production of 120 million households of small owners was transformed into collective production based on common ownership of the means of production. This far-reaching revolutionary change necessitated a large-scale reorganization of the social economy and the new production relations had to go through a process of consolidation. Mao Tse-tung said:

... It takes a hard struggle to build up co-operatives. New things always have difficulties and ups and downs to get over as they grow. It would be sheer fancy to imagine that building socialism is all plain sailing and easy success, that one won't meet difficulties or need not make tremendous efforts.¹

Some of the cadres, however, lacked sufficient knowledge to take such a dialectical-materialist approach. Instead of analysing class relations and concrete conditions and making a comprehensive study of the achievements and shortcomings of the co-operatives and

¹Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, op. cit., p. 34.

the causes of these shortcomings; they listened to the complaints about the movement for agricultural co-operation and the Party's policy of planned purchase and supply of grain and other major agricultural products which were raised by the bourgeoisie, rich peasants and a number of the well-to-do middle peasants who insisted on taking the capitalist road. And so, among these cadres a "miniature typhoon" whirled around their incorrect ideas about the co-operatives which they said had no advantages. This "miniature typhoon" was essentially a continuation of the struggle concerning which road to take, the capitalist or the socialist one, under the new circumstances. It was not until after the rectification campaign, the anti-Rightist struggle and especially the big leap forward in production from the winter of 1957 to 1958 that what they had asserted about the co-operatives being without advantages was completely repudiated. Only then did the bourgeois Rightists who had heaped abuses on agricultural co-operation clearly show their own ugly face as opponents of the Communist Party and socialism. Through this, those cadres who had tended towards a Right deviation in their thinking were given a profound class education and gradually corrected their erroneous standpoint.

The nationwide rectification campaign in 1957 was a far-reaching movement of socialist education on a mass scale. Through free airing of views and debates, the peasants throughout the country were able to distinguish between right and wrong ideas, strengthen their own confidence and determination to take the socialist road and refute the capitalist ideas of the well-to-do middle peasants and, in general, the individualist and sectarian ideas. They exposed and dealt severe blows to the dis-

ruptive activities of the former landlords, rich peasants, counter-revolutionaries and other bad elements. All this played an important role in consolidating the co-operatives and developing agricultural production.

The basic realization of agricultural co-operation and the socialist transformation of handicrafts and capitalist industry and commerce marked the decisive victory in the socialist revolution on the economic front. The rectification campaign brought about a victory in the socialist revolution on the political and ideological fronts. Under these new circumstances, the political consciousness of the people was enormously raised, thus preparing material and moral conditions for the 1958 big leap in industry and agriculture.

During the big leap forward in 1958, in order to meet the needs of objective conditions, the agricultural co-operatives throughout the country made consistent efforts to expand and improve their work. In the autumn of that year, like thousands of galloping horses, the peasants merged the co-operatives to form the rural people's communes heralding a new and higher stage of development in collective ownership.

3. The Socialist Transformation of Individual Handicrafts and Small Trades

The Characteristics of Handicrafts Run on an Individual Basis. In the early transition period there were great numbers of handicraftsmen. According to the 1954 statistics, about 20 million people were engaged in handicrafts on an individual basis, and the value of their output was about 9,300 million yuan. Of the total

number, about 8 million were independent handicraftsmen whose production was valued at about 6,800 million yuan, and 12 million were peasants who took up the production of handicrafts commercially on a part-time basis. The value of the peasants' output was about 2,500 million yuan. Also, there were two other groups engaged in handicrafts. The first worked in capitalist manufacturing, and the second consisted of those peasants who produced handicrafts as side-occupations for their own use. Neither of them fall into the category of handicrafts on an individual basis.

The individual handicraft economy, like individual farming, was based on the labourers' private ownership of the means of production. However, in comparison with the latter, it had certain characteristics of its own.

Firstly, individual farming though basically small-commodity production, possessed some survivals of natural economy, while handicrafts were a pure commodity economy the production of which was entirely for the market. Furthermore, the handicraftsmen had to purchase all their means of production and consumer goods. In comparison with the peasants working on their own, they maintained closer connections with the market and with the commercial and credit establishments. In old China, a great number of handicraftsmen were under the control of commercial capital which supplied them with raw materials and marketed their products. Even in the early days of the transition period, handicraftsmen still suffered from exploitation by private commerce and factory owners. With the development of the socialist state sector and the gradual realization of the socialist transformation of capitalist enterprises, the handicraftsmen gradually freed themselves from their subordination

to commercial capital. They established a close connection with the socialist sector; the socialist commercial enterprises supplied them with raw materials and marketed their products.

Secondly, prior to the realization of agricultural co-operation in China, individual farming was predominant, and the main productive force was that of the peasants working on their own. Handicraft production, however, was only a part of the industry which was overwhelmingly dominated by large modern industrial enterprises. The link between industry and individual farming was largely maintained through the exchange of commodities, but the relationship between the individual handicrafts and large modern industry went further than this. The handicraftsmen could assist an industry by producing or processing certain semi-finished products for it.

Thirdly, among China's handicrafts, there were various and numerous trades and many kinds of products, consisting of manufacturing and a variety of repair trades. The handicraftsmen dealt directly with a vast number of customers in town and country. While agriculture served its consumers generally through trade, a number of handicraftsmen produced on direct orders from the consumers. This was particularly true with the repair trades. Here, production and trade were combined; the handicraftsmen were small producers as well as small traders.

Fourthly, most handicraftsmen, like the peasants working on their own, were owners of their means of production and engaged in independent productive activities. However, there was a section of the independent handicrafts, where the relationship between master and apprentice, employer and employee existed which was not

capitalist in character. Because the tools they used were rather simple and most of the apprentices and hired hands became independent producers soon after they had learned the trade. The process of changing from an apprentice to an independent handicraftsman is a natural step. Also, the independent handicraftsman was usually the one doing the principal work, while the apprentices or hired hands were only his assistants. The means of production he owned were basically his means of labour, and not means of exploitation. What he derived from exploitation constituted only a small part of his total income, the rest being the fruits of his own labour. Such an undertaking which had not developed into capitalism remained basically an individual operation. The economic difference between it and a capitalist factory was at first quantitative, namely, the difference in the number of employees. But quantitative change leads to qualitative change. If the economic status of such an independent handicraftsman improved so that he finally hired more workers, and his own labour gradually became of secondary importance, then he would have become a small proprietor or even a capitalist.

The Role of Handicrafts in the National Economy. Owing to the backward productive forces, capitalism did not fully develop in old China. In agriculture, individual peasant production predominated. In industry, the position of handicrafts had always been important. According to a 1954 nationwide survey of handicrafts, they still accounted for about 20 per cent of its entire gross output value. Therefore, in the process of socialist construction, handicrafts were a part of the economic force which could not be ignored. They played a significant role in

the development of the national economy as a whole. This can be elaborated as follows:

Firstly, as an auxiliary force to the large machine-operated industry, handicrafts served to make up for the insufficiency of industrial products. In order to push forward socialist construction, it was necessary to give priority to the development of heavy industry so as to provide all society with the means of production for the purpose of extended production. In the meantime considerable efforts had to be made to develop light industry in order to satisfy the ever increasing material and cultural needs of the working people. With the rapid increase of consumers' purchasing power the products of the larger industries were often found to be inadequate to meet the demand. It was therefore necessary to handle handicrafts correctly so as to let them perform their function to the utmost. In fact, a rather big proportion of consumer goods and a part of the means of production needed by the working people in town and country had been provided by handicrafts over a long period. In the countryside particularly 60-70 per cent of the goods required by the peasants were and still are handicraft products, including ploughs, hoes, harrows, sickles, water-wheels, household furniture, kitchen utensils, basketry, supplies for educational and cultural purposes, etc. A certain number of handicraft products are controlled by state commercial establishments and supply and marketing co-operatives to better satisfy the needs of the working people. As for repair and personal services run by handicraftsmen, they are constantly in demand in town and country. Large industry cannot satisfy the needs in this field.

Secondly, handicraftsmen can serve capital construction and large industrial plants. They can do repairs, make machine parts and relatively small and simple things. For instance, they produce building materials such as lime, bricks and tiles, and quarry stones; they can build and repair houses in town and country and make and do maintenance work on boats and vehicles, etc.

Thirdly, certain crafts and works of arts will always be done by hand. Their development is not only significant in maintaining and promoting China's traditional arts, but also meets the demand of domestic and foreign markets, especially foreign. Chinese cloisonné, lacquerware, porcelain, pottery, wood, stone and ivory carvings, laces, embroidery, hand-sewn articles with drawn-thread work and braided straw articles including hats and braided feathers, paper and silk fans, etc. have found brisk markets in all parts of the world and provided China with a large amount of foreign exchange for purchasing many capital goods needed for socialist construction.

Fourthly, handicrafts have provided tens of millions of people with employment. This fact greatly facilitated the handling of the employment problem in the early days of the transition period. In the meantime, handicraft production served to train many skilled workers for the state factories. For instance, between January and September 1956, from the handicraft trades in Tientsin some 12,300 skilled workers were transferred to state factories in many parts of the country and industrial construction projects in the remote border regions. In the same year, more than 6,000 skilled workers were trained in the handicraft trades in Shanghai of whom

more than 1,000 were transferred to other parts of China, and 700 were sent to state factories in that city.

In view of the important role of handicrafts in the national economy, the Party adopted the policy of supporting and expanding them whenever necessary and possible while at the same time carrying out their gradual socialist transformation. In pre-liberation days, handicraft production steadily declined as a result of imperialist, feudal, and bureaucrat-capitalist exploitation and oppression. According to a survey of 18 handicraft products in major cities and provinces, from the beginning of the Anti-Japanese War to 1949, handicraft production had dropped by about 47 per cent. Only after liberation was it able to recover gradually, and later develop rapidly, thanks to the assistance and leadership of the state enterprises. According to statistics, the gross value of handicraft output (including the handicraft co-operatives) in 1949 was 3,240 million yuan. By 1954, it had soared to 10,460 million yuan, a more than threefold increase in five years. In the same period certain handicrafts disappeared because the habits of the people had changed, some having to do with previously held superstitions and others being certain articles for ornaments. Some handicrafts making tobacco, cotton fabrics, leather products, etc. were gradually replaced by modern plants using machines. Nevertheless, these trades constituted only a minor part of all handicrafts. On the whole handicrafts were growing and were in a prosperous state, making an important contribution to industrial and agricultural production as well as to the rising living standards of the people.

The Road of Socialist Transformation for the Individual Handicraftsmen. Although handicraft production

played an important role in the national economy, the individual ownership of handicraftsmen represented backward production relations which were unsuitable for the development of the productive forces of the whole society. Like the peasants working on their own, the handicraftsmen operated separately on an individual basis; production was extremely limited, techniques backward and productivity very low. The individual handicraftsman's household usually operated as a production unit. Some had hired hands or apprentices, but they worked only as assistants. There was little division of work. Very often one man had to attend to many processes of production, sometimes even taking upon himself the buying of raw materials and the marketing of his products. Very few improvements were made in technique.

The handicraftsmen had very little capital. According to a survey of more than 86,000 handicraft units in major cities including Peking, Wuhan, Canton and Chungking, the total capital was only 74,000,000 yuan, averaging 850 yuan each; over 90 per cent of the handicraftsmen had an average capital of about 300 yuan. The survey of 1954 showed that the annual value produced per handicraftsman was only 890 yuan, less than 10 per cent of the annual value produced per worker in modern industry. Under such circumstances, to remain in business and continue their meagre existence, the handicraftsmen had very little choice but to work longer hours and accept an ever lower standard of living.

In order to develop the productive forces, it was necessary to change the relations of production in handicrafts run on an individual basis. Again there was a struggle over which of the two roads to take. One way

was to leave them alone and let them follow the natural tendency towards capitalism. The other was to organize handicraft co-operatives and turn production by scattered units into collective production along the road towards socialism. The Party rejected the capitalist road and guided the handicraftsmen with a firm hand along the road to socialism.

During the revolutionary war, the policy of developing handicraft production by organizing co-operatives was first put into effect. For instance, in 1941 in the period of the Anti-Japanese War, in the Shensi-Kansu-Ningsia Border Region, more than 100 handicraft units and co-operatives were established, of which 32 were producers' co-operatives with more than 100 workers and other employees. In 1941 in the Shantung liberated area there were nearly 100 handicraft co-operatives for supply and marketing which, in 1946, exceeded 8,000 in number. On the eve of liberation of the whole country in 1949, the resolution of the Second Plenary Session of the Seventh Central Committee of the Chinese Communist Party pointed out explicitly that cautious, gradual, positive steps had to be taken to guide the development of the scattered individual handicrafts in the direction of modern collective production. In 1953 in the light of the changing situation, the Party decided that with the gradual socialist industrialization of the country, the socialist transformation of the individual handicraftsmen should be carried out simultaneously with those of agriculture and capitalist industry and commerce.

Individual handicraftsmen, like the peasants working on their own, were both small owners and labouring people. As in the case of peasants, patient persuasion, education and careful organizational work had to be

carried out in leading the handicraftsmen to organize themselves on a voluntary basis, changing their individual ownership into socialist collective ownership. However, due to certain differences mentioned before between agriculture and handicrafts, the steps and forms of socialist transformation for handicrafts had some special features.

Handicrafts run on an individual basis were a form of commodity production. As such, the problem of obtaining raw materials and marketing was of primary importance, and was the greatest difficulty confronting the individual handicraftsmen. Therefore, their socialist transformation had to be started by organizing the supply of raw materials and the marketing of their products. In this way a close relationship was established with the socialist sector of the economy which helped to solve these difficulties, sever their relations with private commerce, shake off their dependence on commercial capital, and gradually foster their idea of collectivism. On this basis a further step was taken to organize production, changing the sector of individual ownership into one of collective ownership, and the patriarchal relationship between master and apprentice, employer and employee into one of equality, mutual help and co-operation among members of the socialist co-operative. These methods of socialist transformation were readily accepted by the great majority of the handicraftsmen.

Forms of Handicraft Co-operation. Moving from co-operation in supply and marketing towards co-operation in production was the principal way along which the socialist transformation of the individual handicraftsmen was accomplished. In keeping with such development, there appeared the small supply and marketing group,

then the supply and marketing co-operative, and finally the producers' co-operative.

The supply and marketing group was an elementary form of handicraft co-operation. It was organized for the purpose of purchasing raw materials from, and selling products to, the state commercial establishments and the supply and marketing co-operatives, or accepting their orders for processing goods. Such a form was easier for the handicraftsmen to accept in the initial stage of co-operation before their collective idea had been developed.

The members were in general independent handicraftsmen or small proprietors. The apprentices and hired hands were not eligible for membership although they took part in production. After the handicraftsmen had joined their groups, the means of production remained their own, and they continued to engage in independent production, accounting for their own profit or loss. The relationship between master and apprentice, employer and employee remained virtually unchanged.

Although the supply and marketing groups had not basically altered production relations in the individually-owned handicraft units, they were bound to develop into producers' co-operatives. This was because the groups came into close contact with the socialist sector when obtaining material and marketing products, and they also began to accumulate some collectively-owned property. In the supply and marketing groups, some elements of socialism had already appeared.

Each member in the group who began to have the problem of raw material supply and marketing solved was able to carry on and expand his production fairly smoothly. However, since the production relations based on individual ownership had not been radically changed,

the backward state of production could not be overcome and the spontaneous trend towards capitalism showed signs of growth. For example, there were some groups that only sold their inferior products to the state trading agencies, while marketing the good ones on their own. When the market was brisk, some would request freedom to produce and sell on their own, but when the market was dull, they would ask for processing and purchasing orders from the state enterprises.

The supply and marketing co-operative was a more advanced form of organization than the supply and marketing group. Such co-operatives were organized by a number of individual handicraftsmen engaged in small production and supply and marketing groups for the purposes of freeing themselves further from the exploitation of the middle men and solving the common question of raw material supply and unified marketing. At the initial stage generally such co-operatives were responsible only for obtaining raw materials and marketing products, leaving production as before. The members contributed shares, but retained the ownership of their tools and equipment. As production expanded, and the collective consciousness of the members was raised, certain processes of production became centralized. For instance in some co-operatives simple division of work was practised as far as production techniques allowed. Thus, a simple supply and marketing co-operative gradually turned into one for production. A portion of profit out of its business operation could be used to buy common means of production, and a part of the means of production of the members could be turned into common property. In it, therefore, there were still more socialist elements than in the supply and marketing groups.

In spite of this, however, this kind of co-operative was basically limited within the sphere of exchange. The expansion of the production scale and adoption of more advanced techniques were still hampered by the private individual ownership of a few means of production. The thorough remoulding of the habits and mentality of the small producers was out of the question, and it was not possible to completely prevent the spontaneous trend towards capitalism from developing. In order to further release the productive forces, the handicraft supply and marketing co-operatives had to be turned into producers' co-operatives.

This transition was accomplished when the supply and marketing co-operatives had accumulated some common property and the members agreed to turn over to the co-operative their major means of production in return for compensation, for the purpose of engaging in collective production. All those who participated in production, whether they were apprentices, hired hands, or members of the handicraftsmen's families, became members of the co-operative, thus changing the old patriarchal relationship between master and apprentice, employer and employee.

The handicraft producers' co-operative was thus based on the collective ownership of the means of production. Its management was unified and profit and loss were shared by all members. The income of the co-operative, after money for taxes and accumulating the reserve and welfare funds had been deducted was distributed to the members in the forms of wages and work bonus on the principle of "to each according to his work."

In the development of these producers' co-operatives, an elementary form appeared. Private ownership of the

means of production did not turn immediately into collective ownership of the co-operative, but rather these means were rented to the co-op or pooled for its common use as shares. The co-operative had to pay dividends or rent to the members out of its income according to the amount of their means of production put to common use. But unlike the land-owning peasants working on their own, the independent handicraftsmen depended mainly on the skill of their hands for their living. The means of production they owned were comparatively simple. It was, therefore, easier to turn them into common property than it had been with the peasants. This explains the reason why this elementary form of co-operative did not develop extensively during the socialist transformation of handicrafts.

Since they were founded on collective operation, the 'producers' co-operatives not only practised division of work and co-ordination, but also, as their common funds grew, gradually semi-mechanized or mechanized production, thus considerably raising labour productivity. All this proved that the handicraft producers' co-operative was superior to the handicraftsmen working on an individual basis and other forms. In 1955, according to statistics, the annual output value per member of the handicraft co-operatives in the whole country averaged 1,357 yuan, 28 per cent higher than that of an individual handicraftsman's household which averaged only 1,060 yuan. The annual output value per member of the handicraft producers' co-operatives averaged 1,970 yuan, 85 per cent more than that of an individual handicraftsman's household. In the 415 co-operatives in the country where semi-mechanization or mechanization had been introduced, the annual output value per member was as

high as 5,444 yuan, about three times as much as the average value produced by the co-operative members without the benefit of machines. Furthermore, the quality of the products was improved and the variety increased. For instance, in 1956 in Shanghai more than 3,000 kinds of new products were manufactured. The cities of Peking and Tientsin and the provinces of Kiangsu, Fukien, Hunan, Hupeh, and Liaoning also added more than 2,000 kinds of new products to their handicraft production. Meanwhile, the costs were reduced perceptibly.

Thanks to increased production the common accumulation of the co-operatives grew, and the material and cultural well-being of the members improved continually. Up to 1955, the funds of all co-operatives in the country totalled 240 million yuan, and by 1956, they had risen to 610 million yuan. In 1956, 90 per cent of the members increased their income (new members admitted in 1956 comparing their income with that before their participation, old members comparing their income with that in 1955). Many co-operatives also provided welfare services to their members such as free medical service, medical allowance, workman's compensation, maternity and sickness leave with pay.

The Practical Completion of Co-operation in Handicrafts. As mentioned before, the socialist transformation of individual handicrafts was a standing policy of the Chinese Communist Party. As far back as the days of the anti-Japanese war, under the slogan of "To develop production and ensure supplies" the Party actively gave a lead to handicraft production in the revolutionary bases, and established a certain form of co-operation in the supply of raw materials, marketing and production.

During the period of economic recovery after the establishment of the People's Republic of China, through experiments in certain key undertakings and setting examples and standards, a number of handicraft supply and marketing and producers' co-operatives were formed. From 1949 to 1952, the membership of the handicraft co-operatives and groups increased from 89,000 to 250,000. During this period, however, emphasis was placed only on making certain key experiments. The ones who were first organized were mostly the unemployed and partly employed workers in the cities, and only a few of the independent handicraftsmen were included. In 1953 after the announcement of the Party's general line in the transition period, however, a new stage for the over-all development of handicraft co-operatives began. The Party restated its policy concerning the socialist transformation of handicrafts, i.e. "dynamic leadership, steady advance." The steps to be taken were: beginning with supply and marketing, to proceed to production reform, and advance from small to large units, from elementary to an advanced type. Step by step, the supply and marketing group, the supply and marketing co-operative, and the producers' co-operative were organized. By the end of 1955, the membership of the handicraft co-operatives and groups had expanded to 2,200,000, or 29 per cent of total number of handicraftsmen in the country. There were 415 co-operatives with a membership of 35,000 which had introduced mechanization or semi-mechanization in production. At the Fifth National Conference on Handicraft Co-operation held at this time, conservative ideas were criticized and a comprehensive plan formulated. At the beginning of 1956, spurred on by the upsurge in agricultural co-operation and the socialist transformation of

private industry and commerce, a vigorous nationwide campaign for the socialist transformation of handicrafts was commenced. The handicraftsmen in entire regions and trades became organized right away into producers' co-operatives based on collective ownership, bypassing the step of the supply and marketing co-operatives. By June of the same year, 90 per cent of the handicraftsmen in the country had been organized, and co-operation in handicrafts on nationwide scale was basically completed.

This movement in handicraft co-operation was basically healthy, but because of its rapid pace there were some shortcomings. One was the premature or hasty centralization of production, the pooling of profit and sharing of loss in some trades which were more successful when scattered and better able to cope with ever changing market conditions and meet the various needs of consumers. Another was the merger or expansion of co-operatives blindly without considering the objective conditions. Centralization of production and management did not fit all handicraft trades which were complicated and numerous. There were many repair trades and personal services as well as manufacture. Some could serve their customers better if they were not centralized; they could make widely varied products. Others could adopt different forms with greater flexibility so as to provide direct service to their customers and to make it easier for members of the handicraftsmen's families to take part in production as assistants. Blind concentration of production and aimless large-scale management after these trades were organized into producers' co-operatives sometimes brought about a reduction in the variety of products, a lowering of their quality, imbalance of supply and demand; disruption of co-ordina-

tion, and caused great inconvenience to the customers. So, some of the advantages of separate production and management as described above were lost. The members themselves would also suffer from a reduction in income. For these reasons, except in those trades where, because of the necessity for close co-ordination and mass production, the advantage really lay in centralized operation, the rest generally were kept decentralized. It was also inadvisable to organize only large co-operatives. For a certain period of time, all sizes and various forms of organization existed side by side — large and small — groups and co-operatives for supply, marketing and production, while some of the handicraftsmen were left to manage their own production and finances. Large co-operatives were established of course, since their large membership made it easier to practise co-ordination and division of work, increase labour productivity, lower the costs and adopt new techniques. But the development of a large co-operative was gradual and based on specific conditions.

The Beginning of the Transition of Handicraft Co-operatives to Ownership by the Whole People. After the basic realization of handicraft co-operation and as a result of the developing productive forces, some older and larger co-operatives which had accumulated funds and had a high degree of mechanization, wanted to specialize and expand into factories. But this development was impeded by the fact that these co-operatives enjoyed no assurance in the supply of raw materials and the marketing of their products because their production, supply and marketing were not part of the state plan. They could not depend on the state for allocating and increasing funds, equipment, labour, or technical

personnel. Thus they were unable to expand their production further. In 1958 when the big leap took place, the state needed some of the handicraft co-operatives to be reconstructed and expanded to form the bases of local industries for the purpose of implementing the Party's general line for socialist construction. As a logical result, some handicraft co-operatives based on collective ownership were turned into factories owned by the whole people.

This transition of some handicraft co-operatives proceeded more rapidly than it did in agriculture because of the prevailing economic conditions among handicrafts. Before co-operation was achieved, handicrafts run on an individual basis had never been the dominating factor in the country's industrial enterprises. Afterwards, the handicraft co-operatives based on collective ownership were still of secondary importance in industry, though they and state industries based on ownership by the whole people formed the whole industrial system of the country. Some of these co-operatives, mainly those in which production had been mechanized or semi-mechanized, were closely co-ordinated with the state industries in production. At the same time, the handicraft co-operatives, compared with their agricultural counterpart, possessed more capital, mechanical equipment, technicians and managerial staff. Their labour productivity was generally higher, and the remuneration of the members was nearly the same as the wages of the workers in state enterprises. Encouraged by such conditions, and reinforced with the members' mounting enthusiasm for production and their growing socialist consciousness as a result of the nationwide rectification campaign and the campaign for checking up the work of the co-

operatives, in 1957, a number of handicraft co-operatives turned into state factories under local governments, or co-operative factories under the Federation of Handicraft Co-operatives.

The transition of a handicraft co-operative to a state factory indicated that the transition from collective ownership to ownership by the whole people was completed. The transition of a handicraft co-operative to a co-operative factory represented a transition from a small to large collective ownership which prepared better conditions for its further transition to ownership by the whole people. By 1958, according to membership, 37 per cent of the handicraft co-operatives had been transformed from collective ownership into ownership by the whole people, 28 per cent retained their collective ownership as co-operative factories or handicraft co-operatives in the cities. The remaining 35 per cent were handicraft co-operatives in the rural areas, which were under the direction of the people's communes.

There were greater advantages when a co-operative changed over from collective ownership into ownership by the whole people: (1) The productive potential could be fully exploited, since the funds, equipment, manpower and technical facilities were distributed and used rationally and on a larger scale; (2) An over-all arrangement could be made for rational division of work and co-ordination between the various industrial branches, because the production and marketing of the goods produced in such factories became part of the state plan; (3) The state could, according to plan, reorganize and expand the factories on the basis of former co-operatives, and thereby achieve greater, quicker, better and more economical results in building up local industries.

Thus, when a handicraft co-operative turned into a state or co-operative factory, its productivity was greatly increased and the way to technical revolution was wide open. According to some regional surveys, in 1957 mechanized and semi-mechanized handicraft production accounted for 9 per cent of the gross output value of all handicrafts in these regions, while in 1958, this proportion exceeded 30 per cent. The gross output value of all handicrafts in 1958 increased by nearly 50 per cent over that of the previous year.

That some of the handicraft co-operatives quickly changed over from collective ownership to the ownership by the whole people was a natural trend, and was beneficial to the development of the national economy. But it did not necessarily follow that all handicraft co-operatives should be transformed at once. Handicrafts in China, with their long history and rich variety, are an indispensable and component part of the national economy. According to the experience gained in the transformation of handicrafts in recent years, it was clear that to satisfy the various needs of the people with a wide range of handicraft products both centralized production and individual operation, both manufacturing and repair trades directly serving the customers should exist side by side. And with regard to ownership, various forms will need to exist for a fairly long period of time. With the exception of those large mechanized or semi-mechanized co-operatives, which with the consent of their members were turned into state factories, the rest were allowed to remain under collective ownership as co-operative factories or co-operatives, and, under the direction of the state sector of the economy, continued to expand all the advantages of collective owner-

ship. In the meantime, under the direction of the state sector, individual operation of certain handicrafts was allowed to remain as the situation demanded. All this was favourable to the development of production and the improvement of the people's living conditions. Although it is a natural tendency for certain handicrafts to adapt themselves to mechanization or semi-mechanization step by step, there will still be many things which will remain hand-made for many years. Therefore, a long-range view must be taken in formulating policies for handicrafts. The principle of making over-all plans and comprehensive arrangements with due regard being given to all parties concerned should be applied. Energetic measures for expansion should be taken on the basis of preserving the original, variety, quantity, and quality of products, so that the constantly rising needs of the whole society may be satisfied to the maximum.

The Socialist Transformation of Small Traders and Pedlars. In China, a great number of small traders and pedlars — also operating individually — have always existed. In 1955, according to statistics, there were about 2,800,000 such small units in which some 3,300,000 people were employed which constituted 96 per cent of the total number of private commercial establishments, and the volume of commodities transacted by small traders and pedlars came to 65 per cent of the total volume handled by private commerce.

These people were different from the peasants and handicraftsmen in that they were engaged in commercial operations, not in production. They were not capitalists, but individual working people engaged in commercial transactions. As a rule, they possessed only a meagre amount of capital, operated a small shop, a

stand or stall, or travelled while peddling their wares. Only a very few employed assistants and the overwhelming number depended upon their own labour entirely.

They were widely dispersed in town and country, and a large proportion of them were pedlars. In the past, when rural communities were scattered, production was backward and transportation difficult, they provided indispensable services, purchasing, retailing, and transporting their goods over short distances in the countryside. They often travelled to the remote areas buying the peasants' products and selling them necessities for their daily use and production. They also travelled along definite routes at regular intervals, or delivered goods to the consumers' homes. In a word, their mode of operation grew out of the heterogeneous needs of their customers. Their role in commodity exchange in town and country was indeed quite significant.

The small traders and pedlars, however, were often inclined towards spontaneous capitalist development and speculation. Quite often they were a strong enough force to upset the equilibrium of the market, the state's supply and marketing plan and price policy. Due to their limited resources, however, they always had difficulties in carrying on their business. In the course of socialist transformation, it was necessary to make provisions for them and to remould them in a suitable manner. They were labourers. For this reason, they could be counted on to follow the leadership of the working class and accept socialism step by step. Any measure that would expropriate their livelihood or crowd them out had to be avoided. The Party's policy for their socialist transformation was based on the principle of their voluntary

participation, under the guidance of the state commercial establishments and supply and marketing co-operatives. They were helped to join various types of organizations best suited to their individual business conditions so as to become part of socialist commerce. The major transitional forms were and still are the co-operative groups and co-operative stores.

The co-operative groups act, on behalf of their members, as distributors, commission agents or purchasing agents, for the socialist commercial establishments. Selling is still the business of the individual member, and he alone is accountable for his profit and loss. The advantage of such a measure is twofold. The members can keep close contact with the state commercial establishments, and since their means are now concentrated, they are able to purchase in large quantities and their difficulties in stock purchasing have been overcome. On the other hand, the various operational forms which had been proved suitable before socialist transformation are kept intact, so that the needs of the customers are satisfied and the enthusiasm of the members encouraged.

In essence, such co-operative groups have not changed the individual operations of their members. Nonetheless, in their role as retail distributors or commission agents for state commerce, since the time when the socialist sector was established in a position of dominance in the national economy, and the capitalist sector had practically vanished from the scene, they have become an organic part of socialist commerce. They have to purchase their merchandise from the socialist sector and sell at prices regulated by the state. Their income is derived only from the difference between wholesale and retail prices, or from the commission they receive. Their

position is thus substantially closer to that of the salesmen in the state stores under the wage system.

The other form, that of the co-operative store, has changed individual operation into a collective one. The co-operative store differs from the co-operative group in that it sells its stock directly to consumers and shares profit and loss among its members. The advantages of this are that not only difficulties in stock purchasing due to dispersed capital are overcome, but through unified operation, the network of stores and their trade activities are adjusted rationally and sales increase. Hence this form is superior to the co-operative group. However, there are also contradictions in it. For instance, when the small traders and pedlars are organized into co-operative stores it often causes inconvenience to customers; yet if the small traders remain scattered as before, it creates difficulties in management. These stores have to act as distribution and commission agents for state commerce under the direction of the latter or of the supply and marketing co-operatives according to the state regulations. If they are left completely alone to direct their own business, they easily develop capitalist tendencies, exploiting their customers by various means. This form of organization was, therefore, not widely adopted during the early period of socialist transformation of the small traders and pedlars. The co-operative groups are far more numerous.

The work of transformation among the small traders and pedlars was accomplished step by step. After the establishment of the People's Republic of China, the Party and the government assigned markets, locations and lines of business for the small traders and pedlars, thus enabling the majority of them to stay in business

and even expand their activities to a certain degree. This was done according to the policy of "over-all planning, comprehensive arrangement, with due regard given to all parties concerned," and in consideration of the market conditions in various localities and the practical difficulties they had in the operation of their business. After 1953 with the progress in economic construction and the enforcement of planned purchase and supply of grain and other major agricultural products, state commerce and the state supply and marketing co-operatives developed rapidly. As a consequence, a number of small traders and pedlars went out of business, increasing unemployment in the countryside. For a time, difficulties arose in the flow of goods between town and country. The state took immediate action in making further arrangements for the small traders and pedlars by expanding wholesale selling and reducing wholesale prices and supplying them with merchandise through the state commercial establishments and supply and marketing co-operatives. In the meantime, they were made retail distributors or commission agents for state commerce in the process of their socialist transformation. They started to set up large numbers of co-operative groups and co-operative stores in the latter half of 1955 as part of the nationwide upsurge of socialist transformation. By the end of 1956, 1,150,000 small units in the retail and catering trades, or 46 per cent of the total number in these two trades, organized themselves into co-operative groups, while 800,000, or 32 per cent of the total figure, became co-operative stores. In the same period, some small traders and pedlars were taken into joint state-private enterprises. Of the 540,000

units which remained on an individual basis, the greater part were very widely scattered, which made their organization almost impossible.

After the upsurge of socialist transformation, a unified socialist market was formed. In the second half of 1956, with a view to expanding commodity exchange between town and country and increasing the variety of products to better satisfy the people's needs, the Party and the government decided to open a free market for a limited number of small and native products. After this, for a while the number of small traders and pedlars again increased. Such a development reflected a social and economic need. But it also showed that individual operation or production which is the source of a spontaneous capitalist tendency still lingered on, despite the upsurge in socialist transformation, and, when the opportunity came, it flared up again. It was, therefore, necessary to strengthen the control of the free market and ban all unlawful and speculative activities. Since 1958 when the rural people's communes were established all over the country and small traders and pedlars were drawn into them, greater restrictions have been imposed upon the free market. But under the existing conditions, since the peasants are allowed to pursue certain household side-occupations, it is impossible to completely do away with the simple local markets in the countryside. Similarly, certain free scope is given to the operation of the remaining individual handicraftsmen in the cities. Neither complete prohibition nor absolute non-restriction will do any good to production or advance the people's welfare.

The realization of the socialist transformation of agriculture, handicrafts and small traders on an individual

basis is of historic significance in China. It demonstrates that 90 per cent of the labouring people have abandoned the capitalist path, and taken the socialist road, thus uprooting for ever the foundation upon which capitalism grows.

CHAPTER THREE

THE SOCIALIST TRANSFORMATION OF THE CAPITALIST SECTOR

1. Special Features of Chinese Capitalism and the Party's Policy for the Peaceful Transformation of Capitalist Industry and Commerce

Following the victory of the People's War of Liberation, the state confiscated the property of the bureaucrat capitalists. The industrial and commercial enterprises of the national capitalists were temporarily left intact. The latter became one sector of China's national economy during the transition period.

After the founding of the People's Republic, China embarked upon the stage of socialist revolution. The task was to eliminate capitalism and all systems by which man exploits man. This is a universal principle applicable to socialist revolution in all nations. In their "Manifesto of the Communist Party" Marx and Engels stated clearly:

The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State, i.e., of the proletariat organized as the

ruling class; and to increase the total of productive forces as rapidly as possible.¹

The proletariat of each nation, however, adopts different ways in which to fulfil this historic task according to its own specific historical conditions as well as its relative position of class strength at home and abroad. In China the method of dealing with state-monopoly capitalism of a feudal and comprador character was to confiscate its property and transfer it to the state. The method of dealing with national capitalism was to carry out the nationalization of its property, step by step, through peaceful transformation. Mao Tse-tung pointed out:

Conditions in China were such that it was not only possible, by using peaceful methods, methods of persuasion and education, to turn individual ownership into socialist, collective ownership, but also to change capitalist into socialist ownership.²

The Dual Function of National Capitalism. National capitalism had a twofold function in the development of the economy in semi-colonial and semi-feudal old China as well as in the transition period from capitalism to socialism. In old China national capitalism never achieved a position of monopoly in the country's economic life. With the exception of a few in the upper strata, national capitalists had little connection with imperialism. At that time the power of capitalism in the

¹Karl Marx and Frederick Engels, *Selected Works*, Foreign Languages Publishing House, Moscow, 1955, Vol. I, p. 53.

²*The Draft Programme for Agricultural Development in the People's Republic of China 1956-1967*, Foreign Languages Press, Peking, 1956, p. 4.

world at large had begun to decline like the setting sun. But in old China, a backward country under imperialist enslavement, national capitalism, though not fully developed, was an advanced force in the country's economy. It hastened the disintegration of the age-old feudal system, propelling commodity production forward and helping the formation of a national market. It is true that Chinese national capitalism lagged far behind the industrially advanced countries both in its technical level and in equipment, but it did, to a certain extent, employ modern production techniques, use up-to-date scientific experience and organize mechanized industrial production on a large scale.

Unlike bureaucrat capitalism, Chinese national capitalism was not comprador and feudal in character. Because of its position in the world capitalist system Chinese national capitalism had contradictions with imperialism, feudalism and bureaucrat capitalism. With the support of these other two, imperialism turned China into a market of monopoly capital for the dumping of its commodities and plunder of raw materials, and an outlet for its capital. The policy imperialism adopted towards Chinese national capitalism was to stunt its growth or push it aside. In this connection, Mao Tse-tung said:

The history of imperialist aggression upon China, of imperialist opposition to China's independence and to her development of capitalism, constitutes precisely the history of modern China.¹

¹*Selected Works of Mao Tse-tung*, Lawrence and Wishart, London, 1954, Vol. III, p. 123.

Under such circumstances national capitalism had to wage economic struggles against imperialism for the sake of its own development. For instance, at one time national industrial capital won a position in the textile and food industries and afterwards made energetic efforts to develop machine-building and basic chemical industries. Commercial and finance capital also wanted to free itself from the grip of foreign corporations, establish its own foreign trade relations, rid itself of the control of the big banks run by the imperialists and bureaucrat capitalists and build its own reserve funds. But all these struggles ended in failure owing to the weakness of national capitalism.

Historically, China's national capitalism wielded a progressive influence but it was quite limited. In a semi-colonial and semi-feudal society national capitalism, weak and backward economically, was unable to completely sever its multiple ties with imperialism, feudalism and bureaucrat capitalism.

Light industry virtually dominated national capitalist industry which could not develop as an independent industrial system without a heavy industry for its foundation. In 1949, statistics showed that of the gross output value of Chinese capitalist industry consumer goods accounted for 81.5 per cent, while capital goods only 18.5 per cent. The machine-building industry represented only 1.4 per cent. National capitalist industry imported a large proportion of its machinery, equipment and raw materials. For instance, in the private textile mills in Shanghai before liberation, 96 per cent of the spindles and 72 per cent of the looms were imported. In the flour mills 80 per cent of all rollers and 97 per cent of the large rollers were of foreign manufacture. Before

the War of Resistance to Japanese Aggression, half of the wheat used in the flour mills in Shanghai was imported from the United States, while most of the cotton used in the cotton mills was also from that country and several others. Of the wool used in the woollen textile mills 80 per cent was imported. Some 80 other kinds of raw materials, including rubber, rayon and dyestuffs, came entirely from abroad. The uneven distribution of the productive forces also reflected how the national industry of a semi-colonial and semi-feudal society depended upon imperialism. About 60-70 per cent of all Chinese private industrial enterprises were concentrated in the imperialist-dominated coastal cities. Many of the products of these enterprises mainly served foreign markets and the bureaucrat bourgeoisie in the cities. Among the scattered and backward national industry, there was a large percentage of small enterprises and a considerable number of handicraft workshops. In 1953, statistics showed that 96 per cent of the private factories had less than 50 workers and other employees each. These small enterprises were mostly poorly equipped and low in productivity.

Commercial and finance capital accounted for a large percentage of national capital — more than 80 per cent prior to the War of Resistance. In old China commercial capital was more strongly comprador and feudal in character than industrial capital. A lesser part of it was necessary to industrial capital in commodity exchange while the greater part served imperialism and feudal economy. Commercial capital in the big coastal cities mainly handled imports and exports and as often as not grew around the foreign corporations established in China, hence its strong comprador character. In the in-

terior of the country and in small cities and towns commercial capital was mostly connected with the economic activities of the landlords who exploited and controlled the production of peasants and handicraftsmen. Old China's finance capital, by and large, did not grow on the basis of the development and concentration of industrial capital. It expanded abnormally to facilitate the dumping of foreign commodities and sale of bonds issued by the reactionary government. It was usurious as well as comprador in character. Controlled by the big banks of the imperialists and bureaucrat capitalists, it became a link in the imperialist financial network of exploitation in China. The large proportion of commercial and finance capital was an indication of the strong speculative nature of Chinese national capital. This was a product of China's semi-colonial status, especially of prolonged and vicious inflation. Bureaucrat capital headed by the four big families was actually of a speculative nature. Suffering from the imperialist policy of dumping and being crowded out by bureaucrat capital, normal industrial production and business was very difficult to maintain. Practically all commercial and industrial enterprises engaged more or less in hoarding or speculation in gold, foreign currency, bonds or real estate with the banks as the centre of speculative capital.

It can be seen from the foregoing analysis that national capitalism in old China had both its progressive and positive, also its backward and negative aspects. Under the historical conditions of that time, its dominant aspect was that it helped the development of social productive forces, and it had contradictions with imperialism, feudalism and bureaucrat capitalism.

After the founding of the People's Republic, China's revolution passed from the democratic to the socialist stage. At this time the national capitalist sector of the economy was no longer progressive but backward, compared with the socialist sector against which it stood in direct opposition. Nevertheless, under China's special historical conditions, it still had a dual character at a certain stage in the transition period, which differed in essence from that which it had in old China.

China was backward economically, because although the democratic revolution had destroyed the reactionary, decadent economic system of old China, it was impossible to end quickly the backwardness in production which the old system had caused. When the People's Republic was founded, modern industry accounted for about 17 per cent of the combined gross output value of industry and agriculture. In terms of net output value, it was about 10 per cent. Individual small-scale production was predominant in the national economy as a whole. Under these circumstances, in order to speedily rehabilitate and build up the national economy and to advance gradually towards socialism on the basis of a steady increase in production and a gradual rise in the people's living standards, it was necessary for the country not only to develop the socialist state sector of economy but also to utilize all possible economic forces and bring all positive factors into play. When China's transition period began, capitalist industry accounted for 63.3 per cent of the gross output value of the country's industry (excluding individual handicrafts). In 1949, the output percentages of private industry among some of the principal industrial products were: Coal, 28.3; caustic soda, 59.4; cement, 26.1; electric motors, 79.6; cotton

yarn, 46.7; cotton cloth, 40.3; paper, 63.4; matches, 80.6; flour, 79.4; and cigarettes, 80.4. The proportion of capitalist commerce in the country's commerce was even greater. It accounted for 76.1 per cent of the total volume of wholesale trade and 85 per cent of the total retail sales. These figures showed that the capitalist sector still occupied an important position in the economic life of society at that time, and it was an important economic force to be utilized.

The aim of the capitalist sector was obviously to obtain surplus value. But to attain this, it had to produce material goods or serve as a link between production and consumption in the sphere of commodity exchange. For this reason capitalist industry and commerce were permitted to continue in operation and even grow somewhat for a certain period of time so that they could play a positive role in the rehabilitation and development of the national economy. Firstly, at the initial stage of the transition period the products of the socialist industries lagged far behind the state and people's demands. In order to rapidly restore and develop the production of the state sector and establish its hegemony over the whole national economy, the state had to concentrate huge manpower and material resources for socialist industrial construction as quickly as possible. Under these circumstances it was beneficial to the restoration and development of the national economy to use capitalist industry for the increase of production under state leadership. Capitalist industry made up for the inability of the socialist state sector to supply all of the consumer and capital goods needed by the people. China was a country in which small-peasant production was predominant. Therefore, exchanging some of

the products of capitalist industry for the peasants' grain and other farm produce was particularly significant in strengthening the worker-peasant economic alliance. Secondly, since there were a large number of technical personnel and those experienced in supply and marketing in the capitalist enterprises, more engineers, technicians and skilled workers could be trained from among them. Thirdly, along with the growth of production, the profits of capitalist enterprises increased steadily. The state could turn a portion of such profits into state accumulation through taxation and price policies. Fourthly, the capitalist sector with its extensive trade network and connections at home and abroad served as an important force in promoting the exchange of goods between town and country and between China and foreign countries. Furthermore, China has tremendous manpower. The fact that capitalist enterprises provided work for a number of industrial and office workers during the initial stage of national economic construction was of great help in solving the whole employment problem.

The capitalist sector also had its negative side during the transition period. Capitalism, whether in industry or commerce, must obtain surplus value. Thus part of the material wealth created by the workers in capitalist enterprises goes into the capitalists' pockets instead of being used to raise the living standards of the workers or to increase the state's accumulation of funds. Commercial capitalists exploited the peasant masses and other consumers through commodity exchange. If the situation had remained unchecked, it would have dampened the workers' enthusiasm for production and come into direct conflict with the interests of the work-

ing class and of socialism. Next, blind competition and anarchy in capitalist production was antagonistic to the balanced (proportionate) development of the national economy. If this had not been brought under strict control, the national economic plan and the development of the entire socialist sector would have been disrupted. Finally, within the capitalist enterprises the contradiction between the working class and the bourgeoisie continued since capitalist exploitation of the workers still existed, and the class struggle was still acute. Some die-hard capitalists denied the workers' democratic rights, attempted to continue their unlimited exploitation, or used underhand methods to buy over and corrupt the weak-willed workers. This unscrupulous profiteering and other unlawful activities were very bad for the development of the national economy as a whole.

The capitalist sector in some ways benefited and, in other ways, injured the welfare of the country and the people. Such was the dual character of Chinese national capitalism before the completion of its socialist transformation.

The Dual Character of the National Bourgeoisie. Chinese national capitalism had a dual character and therefore the Chinese national bourgeoisie also had a dual political character. Except for the bureaucrat capitalists, the national bourgeoisie was the smallest class with the shortest history in China. It consisted mainly of small and intermediate capitalists and their intellectuals. In the stage of democratic revolution the national bourgeoisie of a semi-colonial and semi-feudal country like China was oppressed by imperialism, feudalism and bureaucrat capitalism. For its own economic development, it had a certain desire to engage in revolutionary

struggles to free itself from the three oppressions. So, it allied itself with the proletariat against their common enemy. But, because of its economic and political weakness, it did not completely sever its ties with imperialism, feudalism and bureaucrat capitalism and lacked the courage to fight in a thoroughgoing way against them. Instead, it had a strong tendency to waver and compromise. Due to this two-sided character, at certain periods and to a limited extent, the national bourgeoisie either joined the Chinese democratic revolution and became a revolutionary force, sympathized with the revolution, or remained neutral. At other periods it betrayed the revolution and followed the imperialists and their lackeys as accomplices in counter-revolution. Mao Tse-tung pointed out:

On the one hand, the possibility of participating in the revolution; and on the other hand, the proneness to compromise with the enemy of the revolution — these constitute the dual character of “one person filling two posts” of the Chinese bourgeoisie.¹

In accordance with this vacillating character of the Chinese national bourgeoisie, the policy of the Chinese Communist Party during the democratic revolution was to both unite with and struggle against the bourgeoisie, to attain unity through struggle. Its negative side of wavering and compromise was overcome while the development of its positive revolutionary side was encouraged. This made it possible to include it in the people's democratic united front led by the working class

¹*Selected Works of Mao Tse-tung*, Lawrence and Wishart, London, 1954, Vol. III, p. 118.

and based on the worker-peasant alliance. The alliance of the Chinese working class with the national bourgeoisie which was established during the democratic revolution was not only of great significance to the victory in this revolution but had also a far-reaching influence on the changing class relations during the period of the subsequent socialist revolution.

Theoretically, when China entered the stage of socialist revolution the bourgeoisie should have been removed as a class. But the alliance of the working class with the national bourgeoisie continued. This was because the working class had formed an alliance with the bourgeoisie during the democratic revolution; the struggle with the imperialist aggressive bloc was still an important task during the transition period; the counter-revolutionaries in the country had to be completely suppressed; and during the early transition period the capitalist sector was still able to play a certain active role. Furthermore, the socialist camp was growing in strength in the world at large and the political and economic hegemony of the working class and socialist state sector was being established at home. Under such circumstances the Chinese Communist Party adopted a policy of uniting with and educating the national bourgeoisie. Consequently, the bourgeoisie expressed its support for the people's democratic state power under the leadership of the working class and for the Constitution, thus accepting socialist transformation without much reluctance.

Nevertheless, the bourgeoisie by nature had a strong inclination towards capitalism. Because of its desire for profit it opposed certain measures taken by the state for the socialist transformation of the national economy and even resisted in various ways. These were its negative

political aspects. Because of this political two-sidedness, most capitalists vacillated between taking the socialist or the capitalist road. The Party's task was to continue the policy of both uniting with and struggling against the national bourgeoisie and of attaining unity through struggle, in order to win over a majority of its members to socialism.

The principal contradiction in the transition period was between taking the socialist or the capitalist road and that between the working class and the bourgeoisie. This contradiction was antagonistic in nature and a life-and-death struggle. But owing to its dual character, the contradiction of China's national bourgeoisie with the working class also had a non-antagonistic aspect. Under China's concrete conditions during the transition period which were extremely favourable to socialism and because of the possibility that the bourgeoisie would accept socialist transformation without much reluctance, the contradiction between the working class and the national bourgeoisie, when properly handled, was limited to a contradiction within the ranks of the people. Only on a very few occasions did it become a contradiction between the people and the enemy. Thus, the method used in dealing with the contradiction between the working class and the national bourgeoisie was, in general, the same as that used to handle the contradictions among the people, that is, the method of persuasion and education.

The Policy of Using, Restricting and Transforming Capitalist Industry and Commerce. The historical characteristics of national capitalism and the national bourgeoisie are the principal grounds for the policy of peaceful transformation adopted by the Chinese Com-

munist Party and the People's Government. The Constitution of the People's Republic of China provides:

The policy of the state towards capitalist industry and commerce is to use, restrict and transform them. The state makes use of the positive sides of capitalist industry and commerce which are beneficial to national welfare and the people's livelihood, restricts their negative sides which are not beneficial to national welfare and the people's livelihood, encourages and guides their transformation into various forms of state-capitalist economy, gradually replacing capitalist ownership with ownership by the whole people; and this it does by means of control exercised by administrative organs of state, the leadership given by the state sector of the economy, and supervision by the workers.¹

The policy towards the national capitalists was to unite with and struggle against them constantly and to achieve unity through struggles, bringing their positive sides into full play, while overcoming their negative sides. Parallel with the transformation of capitalist enterprises, measures were taken gradually to remould the capitalists from exploiters into working people living by their own labour.

What was this policy of using, restricting and transforming capitalist industry and commerce?

The policy of using capitalist industry and commerce was that under China's historical conditions, the capitalist sector was allowed to exist for a certain period of time

¹Article 10, *The Constitution of the People's Republic of China*, Foreign Languages Press, Peking, 1954, p. 76.

following the victory of the democratic revolution. Those capitalist enterprises which were beneficial to the national welfare and the people's livelihood were allowed to develop. In the initial stage of the transition period, while giving priority to the development of the state sector of economy, the state carried out the policy of "taking into account both public and private interests and benefiting both labour and capital," and gave proper consideration to the capitalist sector in the allocation of raw materials and certain other matters. As a result the capitalist sector grew to some degree. Between 1949 and 1952 the gross output value of capitalist industry increased by about 54 per cent, while the retail sales of private commerce increased by about 20 per cent. The growth of private industry and commerce enabled the state sector to control an increasing number of industrial articles, which helped to restore the national economy as well as consolidate the worker-peasant alliance.

The policy of restriction was that the state took measures to restrict the negative sides of capitalist industry and commerce which were not beneficial to the national welfare and the people's needs. The state set a limit to capitalist exploitation by enforcing its labour protection policy and price policy and through taxation and control over the distribution of the profits of the enterprises. It also restricted anarchy in capitalist production and speculation. This was done by controlling the supply of raw materials, goods in stock and markets and by taking other measures such as supervising the opening and closing of capitalist industrial and commercial enterprises, defining the scope of their operations and banning unlawful activities of the capitalists.

Since the restrictions placed by the state on capitalist industry and commerce clashed with the narrow interest of the profit-seeking bourgeoisie, there were naturally many capitalists who raised objections to these restrictions or violated them. The struggle between restriction and counter-restriction was the main form of class struggle within the country for a certain period. Such struggle was most clearly manifested during the campaign in 1950 to stabilize commodity prices and in the *wu fan* movement in 1952. With a view to smashing the resistance of the bourgeoisie, an acute struggle was waged against those few capitalists who persisted in their unlawful activities and, through the struggle they were isolated from the masses of the people as well as from other members of their class. The method adopted towards the great majority of the capitalists who were willing to abide by the policies, laws and decrees of the state was to educate them and unite with them, so as to facilitate the further transformation of capitalist industry and commerce.

The policy of transforming capitalist industry and commerce was to gradually change capitalist private ownership of the means of production into socialist ownership by the whole people, and capitalist economy into socialist state economy. It is true that through the measures of utilization and restriction the capitalist sector was made to serve socialist construction to a certain extent, but as long as the capitalist economic relations remain unchanged, it was impossible to resolve the contradictions between the capitalist and socialist sectors and those within the capitalist sector itself. That explains why, along with the use and restriction of capitalist industry and commerce, their socialist transformation

had to be carried out step by step. Otherwise, the measures of use and restriction would not have produced full results.

The policy of use, restriction and transformation of capitalist industry and commerce by the state was an organic whole, its final aim being their socialist transformation. The view that "to use them first, then restrict and finally transform them" was not correct. As a matter of fact, from the first day of the founding of the People's Republic, the policy of using, restricting and transforming has been a unified whole, though the emphasis was different at different times.

The socialist transformation of the capitalist sector was carried out in accordance with the law that the production relations must be suited to the nature of the productive forces. The contradiction between the capitalist ownership of the means of production and the productive forces of society sharpened with the growth of the socialist sector of the economy. Since capitalist enterprises could not compete favourably with state enterprises in raising labour productivity, lowering production costs, and improving the quality of the products, many of them encountered a number of difficulties in production and some even became paralysed. Furthermore, the contradiction between the workers and capitalists could never be resolved within the capitalist sector itself. All these things showed that capitalist economic relations had become an obstacle to the development of the productive forces and had to be replaced by new, socialist production relations.

In the transition period the socialist transformation of capitalist industry and commerce was accomplished in two steps. The first was transforming the capitalist

into the state-capitalist sector, and the second was transforming the state-capitalist into the socialist sector. To bring about the socialist transformation by peaceful means via state capitalism, a policy of gradually buying out the means of production owned by the bourgeoisie was adopted. Under certain historical conditions, the adoption of this policy is advantageous to the proletariat. Both Marx and Engels pointed out many years ago that it would be most expedient for the working class to buy out from the bourgeoisie all its properties and nationalize them. Lenin said in 1918 in his "Left-Wing Childishness and Petty-Bourgeois Mentality" that after the seizure of state power the proletariat should, under certain conditions, adopt two methods of work. He said:

... It will become clear that we can and ought to employ two methods *simultaneously*, i.e. the ruthless suppression of the uncultured capitalists, who refuse to have anything to do with "state capitalism" or to consider any form of compromise, and who continue by means of profiteering, by bribing the poor peasantry, etc., to hinder the application of the measures taken by the Soviets, *with the method of compromise*, or buying off the cultured capitalists, who agree with state capitalism, who are capable of putting it into practice and who are useful to the proletariat as clever and experienced organizers of the largest types of enterprises, which supply commodities to tens of millions of people.¹

The policy of buying off adopted in China was a concrete application of the fundamental principle of

¹V. I. Lenin, *Selected Works*, English edition, International Publishers, New York, 1943, Vol. VII, pp. 369-370.

Marxism-Leninism, which was in turn enriched and developed by being applied to China's specific conditions.

Buying off is different from purchasing. This is because the means of production owned by the capitalists are nothing but capitalized surplus value, an accumulation of the workers' unpaid labour. The policy of buying off adopted by the Party and government is politically a consideration given by the working class to its revolutionary ally, a price paid to achieve a peaceful change. Economically, capitalist production always aims at securing profits. Since capitalism was allowed to go on existing in China for a certain period of time and an effort was made to bring about its peaceful transition, it had to be allowed to take a portion of the surplus value. The price to be paid was, therefore, not determined by the value of the means of production but by the progress and requirements of socialist transformation. Before the change-over of private enterprises to joint state-private management by whole trades, buying off took the form of distribution of profits. The price then received by the capitalists was based, by and large, on the condition of production and the management of an enterprise concerned. If an enterprise produced more and was better managed, the capitalists obtained more profit. If not, they received less. After the change-over of private enterprises to joint state-private management by whole trades, buying off took the form of paying a fixed interest on shares to the capitalists and making proper arrangements for their work. At this stage of transformation, this form of buying off helped the capitalists to tide over differences that might arise in their living standards when they were changing from exploiters into working people. It enabled them to have a feeling of

security and to accept socialist transformation more readily.

The socialist transformation of capitalist industry and commerce in China was not accomplished merely by paying a price for its peaceful and orderly conversion. It was accompanied by the simultaneous remoulding of the capitalists themselves, so that they were able to gradually change from exploiters into working people earning their own living. The "dual transformation" of the enterprises and the capitalists helped to weaken the resistance put up by the moribund forces of the bourgeoisie against the socialist revolution and promoted the speedy completion of the socialist transformation. At the same time the national bourgeoisie of China was a class in which there were more intellectuals and specialists with a knowledge of modern science and certain productive techniques and experience of management and administration. When these people were persuaded to accept socialist remoulding instead of putting up resistance they placed their knowledge and experience at the service of socialism. Naturally, the method of persuasion and education was also a form of class struggle so far as class relations were concerned. But such a struggle was based on a desire for attaining unity, for helping the capitalists to accept peaceful transformation without too much reluctance. It depended mainly upon reasoning. It was only when a few of them openly violated or opposed the policies, laws and decrees of the government that supplementary measures, such as administrative and legal action, had to be taken.

2. The Elementary Forms of State Capitalism

State Capitalism in the Transition Period. State capitalism was the form through which the socialist transformation of capitalist industry and commerce was carried out during the transition period.

State capitalism is not an independent economic form. Its nature and function vary with the political and economic conditions of the whole society. There is state capitalism under a capitalist system and state capitalism under a proletarian dictatorship.

State capitalism in a capitalist country exists under the direct control of the bourgeois state, in the form of state-established monopolies or nationalized enterprises. It serves the interests of the monopoly-capitalists and is basically no different from private capitalism. The difference, if any, is that it is owned not by a single capitalist or a group of capitalists, but by the bourgeoisie as a whole. In his *Anti-Duhring*, Engels said:

The modern state, whatever its form, is an essentially capitalist machine; it is the state of the capitalists, the ideal aggregate capitalist. The more productive forces it takes over, the more does it become a real aggregate capitalist, the more citizens does it exploit. The workers remain wage earners, proletarians. The capitalist relationship is not abolished; it is rather pushed to an extreme.¹

The modern revisionists are only apologists for moribund capitalism, spreading illusions and trying to lure

¹F. Engels, *Anti-Duhring*, Foreign Languages Publishing House, Moscow, 1947, p. 414.

the working class away from the revolutionary path, when they try to disguise the state capitalism of capitalist countries in the beautiful mask of "socialism" and repeat the reformist "theory" of the British Labour Party.

State capitalism under proletarian dictatorship is an entirely different matter. Lenin said:

In a capitalist state, state capitalism is recognized by the state and is controlled by it for the benefit of the bourgeoisie, and in opposition to the interest of the proletariat. In the proletarian state, the same thing is done for the benefit of the working class for the purpose of withstanding the as yet strong bourgeoisie and of fighting it.¹

Although the capitalists still exploited the workers in this type of state-capitalist enterprise, they can no longer squeeze them at their will as in the past, nor can they hunt freely for high profits. They must meet the demands of the state and society as a whole in their production and in the operation of their business. This type of state capitalism is one which can be restricted by the proletarian state in the interests of building socialism. It is just as Lenin said:

State capitalism is capitalism which we shall be able to restrict, the limits of which we shall be able to fix. This state capitalism is connected with the state, and the state is the workers.²

Following the victory of the people's democratic revolution in China, people's democratic state power was

¹V. I. Lenin, *Selected Works*, Lawrence and Wishart, London, 1946, Vol. 9, p. 238.

²V. I. Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 644.

set up. This state power was a special form of proletarian dictatorship with a powerful socialist state sector of the economy as its base, and because of this, state capitalism in China's transition period was, just as Lenin said, state capitalism under proletarian dictatorship. The purpose of directing capitalist industry and commerce into the channels of state capitalism was to better utilize their positive sides which are beneficial to the national welfare and the people's needs and restrict their negative sides which are not so beneficial, and to gradually change the economic relations of capitalism and eventually replace capitalist ownership of the means of production with ownership by the whole people.

When the capitalist sector was diverted into state capitalism, fairly permanent connections were established between it and the socialist state sector through various forms of a more or less socialist nature. According to the degree of such connections and the growth of socialist elements, state capitalism in China may be divided into two forms—the elementary and the advanced.

The Formation and Development of the Elementary Forms of State Capitalism. The elementary state-capitalist enterprises were still privately managed by the capitalists. Connections of one kind or another were established only by contracts with the socialist state sector outside the enterprises.

In industry, the elementary forms of state capitalism consisted mainly of the private enterprises processing goods for the state, accepting state orders, and the state purchasing and marketing their entire output.

Processing of goods: State commerce (or other state enterprises or government offices) through a contract sup-

plied a private factory with raw materials or semi-finished products for processing goods according to specifications, quality, quantity and within a specified time. The private factory delivered the finished products to the state enterprises and received a sum for processing charges, which covered wages and other costs of production, the business tax for the products processed and a reasonable profit.

Manufacturing of goods: State commerce (or other state enterprises or government offices) through a contract placed orders with a private factory which delivered goods according to specifications, quality, quantity and within a specified time. The private factory received a price for the goods, which covered reasonable cost, the state tax for the products, and a reasonable profit. If necessary, state commerce might pay a part of the price for the goods in advance as a deposit or supply part of the raw materials.

The planned purchase by the state of the entire output of private enterprises: According to the needs of society, the state appointed certain state commercial establishments to make planned purchases of certain important products which were essential to the national welfare and the people's needs on a long-term basis and at appropriate prices. For the private factories, such purchasing generally took the forms of processing goods or accepting orders. The difference was that, in the latter case, the capitalist enterprises, after fulfilling the state orders, could produce the same commodities with their own raw materials and sell them on the market, while in the case of planned purchasing by the state, they were not allowed to sell the commodities themselves.

The planned marketing by the state of all finished products of private enterprises: The private factories sold their entire output of certain products to the state enterprise by contract according to specifications and quality, and at reasonable prices and within a specified period of time. State marketing also took the form of processing goods for the state, or accepting orders from it, or similar forms. The difference was that the private factories were, in general, not allowed to sell their products elsewhere because they were marketed by the state enterprises exclusively. State purchasing of the entire output of the private enterprises was laid down by the law of the state, while state marketing was a voluntary bond between state enterprises and the private factories concerned.

In addition to the above mentioned, another form of state purchasing was adopted immediately after liberation before the processing of goods for the state and accepting orders from it were extensively developed. Under this form state commerce made provisional or regular purchases of certain products from private factories and paid a reasonable price according to the specifications, the quality and quantity of the products. This was a makeshift arrangement and a more elementary form of state capitalism.

In commerce, the elementary forms of state capitalism consisted of making private enterprises retail distributors or commission agents of the state.

Making private enterprises retail distributors: State commerce entrusted the private retail stores to sell its commodities. The stores purchased stock from state commerce with cash according to plan and sold it at the retail prices prescribed by the state enterprises. They

obtained a profit from the difference between the wholesale and retail prices. The commodities sold by them were generally those completely or largely controlled by the state. The retail distributors made no purchases of the same kind of goods for stock from the free market.

Making private enterprises commission agents: State commerce entrusted the private retail stores to sell those commodities completely or largely controlled by the state. After selling the commodities at prices prescribed by state commerce, the stores turned over the entire proceeds to it and received a certain amount of commission, including commercial profit. Private enterprises acting as commission agents had to deposit a certain sum as security with the state. They were not allowed to purchase from the free market those commodities which they handled for the state on a commission basis.

In industry, the elementary form of state capitalism appeared very early. In the early period after liberation, the state established connections with private industrial enterprises through placing orders for the processing and manufacturing of goods and purchasing their products. This was done to help capitalist industry restore production, to enable the state to control the products of private industry in order to facilitate the commodity exchange between town and country and to consolidate the economic basis of the worker-peasant alliance. In 1949 the value of the products processed and manufactured by capitalist industries for the state was 12 per cent of their gross output value. The figure rose to 29 per cent in 1950, 43 per cent in 1951 and 56 per cent in 1952. After the *wu fan* movement in 1952, all or nearly all the principal branches of the capitalist industrial enterprises were placed within the orbit of state capitalism.

According to the requirements of the Party's general line in the transition period, the state began to expand the scope of orders for processed and manufactured goods in a planned and systematic way from the second half of 1953 — from the principal to the ordinary trades, from large to small factories and from the large and medium-sized cities to small cities. The amount purchased by the state as a makeshift arrangement practised from the early years of liberation was continually reduced, while the number of orders given for processed and manufactured goods, especially state purchasing and marketing of all products of private enterprises was continually expanded. The proportion of the value of the products processed or manufactured by the private factories, or exclusively purchased and marketed by the state in the gross output value of all capitalist industries was 62 per cent in 1953, 79 per cent in 1954 and 82 per cent in 1955. The proportion of the value of the products purchased by the state as a makeshift arrangement in the gross output value of capitalist industry dropped from 7.4 per cent in 1952 to 5.7 per cent in 1953, 3.7 per cent in 1954 and 4.6 per cent in 1955. The principal products of the cotton textile, weaving and dyeing industries and such products as cement and rubber tires were all systematically purchased and marketed by the state. Many of the principal daily necessities were also marketed by the state.

As the amount and scope of state orders for processed and manufactured goods increased, the control and supervision over the private industries was strengthened. In 1953 and 1954, the large and medium-sized cities all drew up control regulations for placing orders for processing and manufacturing goods. Under the unified leadership

of the local Party committees, the governmental departments, state enterprises and the trade union organizations concerned, co-ordinated and unified measures to strengthen state control over processing and manufacturing goods, unfolded a movement in the private enterprises for increasing production and practising economy and strengthened supervision by the workers. To supervise the fulfilling of the contracts, state representatives were sent to some of the private enterprises which were engaged in this business for the state.

State capitalism in commerce was in its embryonic stage in the period of national economic rehabilitation. It was widely developed only after 1954. When the planned purchase and marketing of grain was enforced by the state at the end of 1953, the private grain stores were turned into retail distributors or commission agents for the state. The planned purchase and marketing of cotton cloth and other goods which began in 1954 further expanded the activities of private enterprises as retail distributors and commission agents and excluded the capitalists from the wholesale link of these commodities. From 1953 the state began to replace private wholesale trade with state commerce in a planned way, putting the private wholesale merchants and their employees in state commercial enterprises. The small wholesalers who dealt in commodities of secondary importance were retained and allowed to do second-hand wholesale selling for the state commercial enterprises as far as possible. Allowing the second-hand wholesale distributors and commission agents to act in this way, like the retail distributors and commission agents, was one form of state capitalism in the field of wholesale. In 1954, the function of the private wholesalers was practically all

taken over by state commerce. The private retailers had to depend on state commerce for the supply of stock. As a result, state capitalism in the commercial field was greatly expanded.

In 1953 and 1954 when state capitalism began to develop in this field, it was not retail distributors and commission agents but those engaged in wholesale purchases and retail sales who appeared in large numbers. They were like retail distributors but were not subjected to strict state planning and control of prices. Some of them did not make plans for their purchases of stock nor did they have to sell the commodities at the prices prescribed by the state. Besides making wholesale purchases from state commerce, they were also able to purchase the same commodities from the free market. After the enforcement of the planned purchase and marketing of grain, edible oil and cotton cloth according to state plan, there was no longer a free market for these commodities. The private retailers who had dealt in these commodities were turned into retail distributors or commission agents for the state by whole trades. After this, retail distributors and commission agents for the state, as the principal forms of state capitalism, gradually replaced those engaged in wholesale purchases and retail sales. As the function of the retail distributors and commission agents developed, some higher forms of state capitalism emerged. The specialized commission agents, for instance, were those private merchants who completely discontinued their own business. With all their commodities belonging to the state, their sales plan was completely controlled by the state.

In 1953, the volume of retail sales handled by the state-capitalist commercial enterprises (including retail

distributors, commission agents and those engaged in wholesale purchases and retail sales) and co-operative stores was only one per cent of the total retail sales volume of private, state-capitalist and co-operative commerce. It rose to 17 per cent in 1954 and 45 per cent in 1955.

The Role of the Elementary Forms of State Capitalism in the Socialist Transformation of the Capitalist Sector.

The elementary forms of state capitalism were fundamentally capitalist in nature. The assets of the state-capitalist enterprises were still the private property of the capitalists and still used by them directly in the spheres of production and exchange as functional capital (that is, industrial or commercial capital), which increased its value in its turnover. These elementary forms of state capitalism, however, had already established close connections with the socialist state sector. These connections were made outside the enterprises between the capitalist and state sectors, embodying the leadership of the latter over the former.

The movement of industrial capital invariably has to pass three interwoven phases: In the first, money capital is used to buy labour power and means of production; in the second, the process of production begins; and in the third, capital returns to the sphere of exchange in the form of commodities. These different phases show that the movement of industrial capital cannot be carried out independently. It must rely on obtaining the necessary means of production, especially raw materials, and a market for its products. For this reason, when the socialist state enterprises controlled all or most of the raw materials and the commodity market, the capitalist

enterprises had to rely on the socialist state sector and to accept state orders for the processing and manufacturing of goods together with the planned purchasing and marketing by the state of all their products. Otherwise, they would not have been able to continue production. The elementary forms of state capitalism were a way to control the first and last phases (mainly raw materials and market) in order to handle the middle phase. By this method the state enterprises were able to control capital circulation, supervise the production process and restrict the exploitation of surplus value and anarchy in production. To achieve this, it was, of course, not enough to rely only on the external connections between the state and capitalist sectors, important as they were. Control by state power from the top to the bottom and the supervision by the masses of workers from the bottom to the top were also necessary. This meant a twofold measure in which economics were linked with politics.

To ensure voluntary acceptance of the elementary forms of state capitalism by the private industrial and commercial enterprises, the state also made sure that they received a reasonable amount of profit, in addition to taking the above-mentioned measures; otherwise they would not have been willing to continue operation and production. In fact, after the capitalist industrial and commercial enterprises had accepted state orders for processing and manufacturing goods and acted as retail distributors and commission agents for the state, their legitimate profit was guaranteed though their exploitation of surplus value was restricted. This was an important reason why the elementary forms of state capitalism were rapidly developed.

In the elementary forms of state capitalism, the exploitation of surplus value was mainly restricted in the following ways:

First, from the point of view of production, the workers were wage-earners. The wages they received were still a transmuted form of the value of labour. But as the socialist state sector grew strong, the wage level and working conditions of the state enterprises had a definite influence upon the capitalist enterprises. This, together with the state policies of benefiting both labour and capital and of labour protection and supervision by the workers within the private enterprises, brought the wages of the capitalist enterprises gradually close to those operated by the state in quantity, although they were still basically different in character. The capitalists were no longer free to increase their exploitation of the surplus value created by the workers by lengthening the working day and increasing the intensity of labour. This kind of restriction was applied to capitalist enterprises in general which, however, were not as easy to control and supervise as the state-capitalist enterprises.

Secondly, in the elementary forms of state capitalism, one of the factors which determined the amount of profit to be taken by the capitalists was the amount paid by the state for processing charges and the price of goods. These were the central link through which the exploitation of surplus value in the capitalist industry was restricted. They also formed the focal point of the struggle of restriction and counter-restriction between the working class and the bourgeoisie. If these were too low, the capitalists would not be able to get any profit and their enthusiasm for production would be adversely affected. But if they were too high, the state would not

be able to prevent the capitalists from getting excessively high profits. After the *wu fan* movement in 1952, in order to encourage enthusiasm for production in the capitalist industries, the state made the following provisions concerning their profits: According to respective conditions and under normal and proper operation, private factories were to receive an annual profit amounting to about 10 per cent, 20 per cent or 30 per cent of their capital. Some factories which turned out high-quality products at low cost, therefore, could obtain more profits, and vice versa. This helped to encourage the advanced, take care of the majority and push forward the backward. At the same time it restricted the profits of the capitalist enterprises within certain limits.

Thirdly, in the elementary forms of state capitalism, the capitalists could no longer appropriate all the net earnings as profits, but received only a portion. The amount of profit obtained by them was determined by the principle of the distribution of the net earnings. During the early days of the transition period, the net earnings of capitalist enterprises were distributed according to the "Regulations Concerning the Private Enterprises" which for the first time set a limit to the profit to be taken by the capitalists. As the elementary forms of state capitalism, such as the capitalist enterprises accepting state orders for processing and manufacturing goods and acting as retail distributors and commission agents for the state, were developed, and as the workers' supervision was established, the method of "dividing the profit into four parts" was introduced in 1953 to further restrict the exploitation of surplus value. According to this method, the earnings of the private enterprises were divided roughly into four parts: Income tax, reserve

funds for the enterprise, workers' welfare funds and profit for the capitalists (including dividends and bonus). The portion for the capitalists was only a quarter of the total net earnings.

The first of the four parts was the income tax. In capitalist society, capitalists also turn over a portion of their profit to the state in the form of tax. Since the capitalist state serves the interests of the bourgeoisie, this portion of surplus value is only changed from being expropriated by a certain capitalist to being expropriated by the bourgeoisie as a whole. In China the class nature of the state is different. When the capitalists turned over a portion of their profit to the state in the form of tax, this portion became the property of the whole people, to be used to satisfy the needs of the whole society. This portion of value, in fact, no longer represented exploitation of the workers by the capitalists. From the point of view of distribution, the labour engaged in producing this portion of value was no longer surplus labour in the capitalist sense.

The portion of the net earnings of the private enterprise set aside as the welfare funds was spent on the collective welfare facilities for the workers and other employees and used to reward the advanced ones among them. It was to be eventually expended by themselves. This portion of value likewise no longer represented the exploitation of the workers by the capitalists. The labour engaged in producing it was also no longer surplus value in the capitalist sense.

The reserve funds, to be changed from surplus value into capital, were still owned by the capitalists. The function of this portion of value as capital was also strictly restricted as the original capital was. The

capitalists were not at liberty to withdraw it and spend it for other purposes. In the process of the socialist transformation, it was to be turned eventually into state property together with the original capital. Here, the change from surplus value to capital mainly created conditions for developing the enterprises and expanded the production of material goods to satisfy the needs of the whole society rather than bringing more surplus value to the capitalists.

In the distribution of the net earnings of the capitalist enterprises, only the last portion which was paid to the capitalists in the form of dividends and bonus was the true surplus value created by surplus labour in the capitalist sense.

Fourthly, the activities of capitalist commerce were completely confined to the sphere of exchange where, by using its capital and wage-labour, it obtained commercial profit through the difference between the purchasing and marketing prices. The price policy of the state had, therefore, a considerably greater effect on the amount of its profit. For the two forms of state capitalism — retail distributors and commission agents — the net earnings of capitalist commerce were limited mainly by the difference between the wholesale and retail prices or the amount of commission. The net earnings of capitalist commerce were also distributed according to the principle of "dividing the net earnings into four parts" as discussed above.

Of course, the state did not ignore the law of surplus value when it restricted exploitation by the capitalist enterprises. On the contrary, in enforcing the policy of placing orders for processing and manufacturing goods by the capitalist enterprises and the price policy, the

state took into full account the fact that the exploitation of surplus value is the objective law of capitalism. Therefore, when deciding on the amount of processing charges and prices to be paid by the state for the goods processed and manufactured by capitalist enterprises, the state not only considered the production cost but also allowed a necessary amount of profit for the capitalists so that they might make some money. Those who tolerate the unscrupulous profit-seeking aspect of capitalist enterprises hesitate to impose restrictions upon the exploitation of surplus value and let capitalism have free scope will commit mistakes of Right opportunism. On the other hand, those who allow the capitalists no profit while capitalism is allowed to exist will commit mistakes of "Left" adventurism, because their ideas did not facilitate the development of production and exchange, nor conform with the Party's policy of "buying off" the capitalists.

Anarchy in capitalist production was also restricted in the elementary forms of state capitalism. Through giving the private industrial enterprises orders for processing and manufacturing goods and getting the private commercial enterprises to act as retail distributors and commission agents, the state could, to a certain extent, direct the production and exchange of the capitalist enterprises into the orbit of the state plan.

In the case of those capitalist enterprises which accepted state orders for manufacturing goods, the connection between them and the state remained outside the production process, and at the exchange stage when capital was turned from commodities into money. But since this business relation was carried on when the state sector led the capitalist sector and when state com-

merce controlled the greater part of the commodity market, the contracts for manufacturing goods inevitably affected the production phase of capitalist enterprises, forcing the capitalists to arrange their production according to the contracts. The contracts between the state and the capitalist enterprises for manufacturing goods reflected the demands of the national economic plan as a whole. By making them arrange their production according to the contracts, the state could, to a certain extent, bring it into the state plan. In the case of those enterprises which accepted state orders for the processing of goods, since the connection between the state and capitalist sectors covered the two exchange stages before and after the production process, thus completely cutting off the capitalist sector from the free market and making it easier to place capitalist production within the state plan. As a matter of fact, those capitalist enterprises which accepted state orders for processing and manufacturing goods had already lost their economic independence, because with the raw materials and market controlled by the state sector, they could not but rely on the latter to continue their production. Under these conditions, the state could convene production conferences of all trades including both state and private factories to give them production assignments in a unified manner, and enable them to carry out their production according to the state plan.

To be able to accept state orders for processing and manufacturing goods, many private factories organized themselves to operate jointly so that they could have a division of work and co-ordination among themselves and establish close connections in production. In the meantime, while fulfilling state orders for processing

and manufacturing goods, some private factories established co-ordination in production directly with the state industries.

The commodities produced by the capitalist industrial enterprises which accepted state orders for processing and manufacturing were turned over to state commerce as soon as they were produced. State commerce sold them to the consumers according to its plan for commodity exchange. In the sphere of exchange, the capitalist commercial enterprises acting as retail distributors or commission agents for the state also accepted the control of the state over the quantity, variety and direction of exchange of the commodities they engaged to sell.

The elementary forms of state capitalism also greatly affected the allocation of labour power and means of production to capitalist industry and commerce. Through assigning tasks of production and operation, regulating the price of goods, processing charges and the difference between the wholesale and retail prices, the state, on the basis of the needs of society, encouraged some trades or enterprises, while restricting others. At the same time, it weeded out those few trades and enterprises which were not beneficial to the welfare of the country and people.

From the above analyses it can be seen that although the elementary forms of state capitalism were still essentially capitalist in nature, their economic relations had somewhat changed and they had some socialist factors. Although the workers in these enterprises still remained wage-labourers, their position had begun to change. A part of the value produced by their labour was now taken by the state and used for the needs of the whole

society. By supervising the fulfilling of contracts made by the capitalists with the state sector, the workers were already participating in the operation and management of the enterprises in one way or another. Their enthusiasm for labour, therefore, was increased.

For the reasons given above, the elementary forms of state capitalism raised labour productivity, increased production and improved their management to a certain extent, which proved their superiority over private enterprises in general. In these forms the capitalist ownership of the means of production and method of management were generally preserved and there were no radical changes in economic relations. They were accepted fairly easily by the industrial and commercial capitalists. In accepting state orders for processing and manufacturing goods or acting as retail distributors or commission agents for the state, capitalist enterprises were given a full guarantee for the supply of raw materials, stock of commodities and a market for their products and were able to obtain a certain amount of profit according to their contract. For this reason, most capitalists were glad to establish such economic connections, through which the state encouraged and brought into play their initiative for production and operation.

Of course, the growth of the elementary forms of state capitalism was not all smooth sailing. Complex struggles had to be waged before the capitalist enterprises would accept state orders for processing or manufacturing goods or act as retail distributors or commission agents for the state. The industrial and commercial capitalists often asked to co-operate with the state when they were in difficulties and then wanted to operate independently when the market was brisk. They were ready to accept

state orders for processing or manufacturing goods that were difficult to dispose of, but wanted to produce and market by themselves those products that commanded a ready sale. Quite a few of them continued their unlawful activities such as doing shoddy work, using inferior material, substituting poor-quality articles for good ones, etc. When the state sector steadily developed, its leading position in the market was increasingly consolidated, the ties between the capitalist sector and the rural economy were gradually severed, the connections between the capitalist enterprises themselves gradually weakened, and the bulk of the raw materials and commodities were controlled by state commerce, the capitalist enterprises had no other choice but to accept state capitalism.

The Contradictions in the Elementary Forms of State Capitalism During Their Development. Since the capitalist nature of the enterprises in the elementary forms of state capitalism remained basically unchanged, irresolvable contradictions existed.

In the first place, the contradiction between the socialized character of production and capitalist private ownership of the means of production remained. When the capitalist enterprises were turned into the elementary forms of state capitalism, their connections with the free market were severed. This promoted the growth of the productive forces, but at the same time the capitalists were less keen to improve and expand their enterprises when competition on the free market disappeared. Many of them lost interest in production and were reluctant to improve their management, which resulted in a great amount of waste, poor-quality products, unnecessary accumulation of raw materials and other serious

irregularities. Since the profit for the capitalists, which was included in the processing charges and price of goods, was calculated in terms of the cost, the capitalists were reluctant to cut down the cost, and sometimes even raised it by deliberately wasting raw materials and paying unwarranted increases in wages. Secondly, the workers and capitalists were still in direct antagonistic positions. As the leading class of the country, the workers had to supervise the capitalists according to the terms of the contracts between the state and the capitalist enterprises and see to it that they were fulfilled with regard to the specified quality, quantity and time of delivery. On the other hand, the workers were still exploited wage-labourers. This inevitably dampened their enthusiasm for production. Finally, the contradiction between the blindness and anarchy in capitalist production and the demand for planned and proportionate development of the socialist economy was not basically resolved. Blind competition and development between enterprises could not be completely avoided in the elementary forms of state capitalism, because the state could not exercise direct control over them according to plan and certainly could not make a comprehensive plan for the distribution of the productive forces of the capitalist sector as a whole.

When the socialist sector was not strong enough and the planned control of the national economy was confined to some important economic branches only, the state could, by different methods, adjust the relations between the state enterprises and private enterprises in a general way according to the principle of "taking into account both public and private interests." One of the forms for making such adjustments and providing over-

all arrangements for different trades was placing state orders with the private enterprises for processing and manufacturing goods and letting them act as retail distributors or commission agents. This was good because it enabled the production and operation of private industry and commerce to play an auxiliary role to the socialist sector and facilitated the development of social productive forces. However, the situation changed when the state sector developed rapidly, and was accompanied by a big rise in the technical level and labour productivity in the national economy. Then capitalist industry and commerce obviously lagged behind the state enterprises in the methods of management and production techniques. For the sake of making over-all arrangements for and giving due consideration to the capitalist enterprises, the state often had to compromise to a certain degree with their low production quotas when placing orders with them. Sometimes the state had to reduce the production and operation of certain state enterprises in order to maintain the backward capitalist enterprises. This showed that capitalism was becoming a serious obstacle to the development of the social productive forces. In order to hasten the expansion of the productive forces, it was necessary for the capitalist enterprises to readjust their production equipment, raise their labour productivity, change their various forms of management and carry out a reorganization of production and organic co-ordination between enterprises and trades. To achieve this, it was necessary to push the socialist transformation of capitalist industry and commerce further and turn the elementary forms of state capitalism into advanced ones.

3. The Advanced Form of State Capitalism

Joint state-private enterprises are the advanced form of state capitalism in China. In the development of this form there were two stages: the joint state-private operation of individual enterprises, and joint operation by whole trades. The latter was the decisive step in the socialist transformation of capitalist industry and commerce.

The Birth and Development of Joint State-Private Enterprises. In the first stage, a joint state-private enterprise was one in which the state made an investment and assigned personnel to share in its management with the capitalist owner. This form emerged soon after the People's Republic of China was established. At that time, some of the private concerns had shares which belonged to bureaucrat capitalists or properties belonging to Japan, the enemy country, and its puppets. When these were nationalized and converted into public shares, these private enterprises came under joint state-private operation. In the meantime, a few capitalists who had difficulties in operating their business or lacked funds for expansion applied for joint operation, as was the case of the Yungli Chemical Company and Chiuta Company. After the *wu fan* movement in 1952, more private concerns requested that their business be reorganized in this way. As public confidence in the private banks dwindled, their business of granting credits and loans was gradually taken over by the state banks which became centres for the deposits, clearance, and credit transactions for the whole country. Under these circumstances there was no need for the private banks to exist independently. In Decem-

ber 1952, all private banks, except a few owned by overseas Chinese, were merged to come under joint state-private operation. In transportation, the Ming Sheng Steamship Company and other fairly large concerns were the first to change over to joint operation. Other private shipping companies followed suit. In industry, some capitalists had appropriated and utilized state property, but by reaching agreement with the state they turned back these property rights which were not rightly theirs. Such property was turned into state shares in their respective concerns. Some others, on their own initiative, requested that their concerns be changed over to joint operation for the purpose of seeking more government aid. As a whole, however, there were not many joint state-private enterprises in this period. In 1949 there were only 193 such enterprises with 100,000 or more workers and other employees, their annual output value being 220 million yuan. By 1953, the number increased to a little over 1,000, with 270,000 workers and other employees and an annual output value of 2,000 million yuan.

From 1954 joint operation began to extend in a planned way. Conditions for change were maturing in that year, for in 1953, the Party's general line for the transition period had been widely publicized, and the First Five-Year Plan was launched. The elementary forms of state capitalism had been developed on a broad scale. A group came forward from among the capitalists actively demanding a change-over to joint operation. Finally, practical experience had been gained in the joint operation of some enterprises. In view of these conditions, in January 1954, the Party and the government formulated the policy of "consolidating the positions gained, expanding

certain important points, setting examples, and intensifying the preparatory work." In September of the same year, the State Council promulgated the "Provisional Regulations for the Joint State-Private Industrial Enterprises." Under the correct leadership of the Party, a large number of big private establishments changed over to joint operation. At the end of 1954, the total number of the joint state-private industrial enterprises in the country exceeded 1,700 with more than 530,000 workers and other employees and an annual output value of more than 5,000 million yuan, which constituted 33 per cent of the total produced by the private and state-private industrial enterprises. After the change-over of the larger concerns, the smaller establishments encountered more difficulties. Being aware of the scattered and backward character of Chinese capitalist industry and its uneven development, the Party and the government, in the first half of 1955, decided upon the policy of "over-all arrangement and comprehensive planning, with due consideration given to all parties concerned." To carry out this policy, economic reorganization during the change-over was brought about by applying the method of "letting the larger and more advanced enterprises lead the smaller and backward ones," according to the various conditions which prevailed among them. By the end of 1955, the number of jointly-operated industrial establishments had exceeded 3,000, with 780,000 workers and other employees and an output value equivalent to 49.7 per cent of the total produced by the private and joint state-private industrial enterprises. The salient fact concerning joint operation during this period was its gradual development from large factories to small ones, from large trades to small ones and from a few big cities to

medium-sized and small ones throughout the country. Petitions for the change-over came from many factories collectively; and in some cities the change-over was effected by whole trades. This created conditions for the realization of joint state-private operation by whole trades on a nationwide scale and for the high tide in the socialist transformation of industry and commerce.

Joint operation is a transitional form by which the capitalist ownership of the means of production is changed to ownership by the whole people. In this process sharp and complicated struggles between the working class and bourgeoisie could not be avoided. Some capitalists were against joint operation. Others, seeing the general trend of events, expressed readiness to accept it but were really reluctant to hand over the management of their enterprises to the state. Still others attempted to share management with the state for private ends, making use of the state funds and favourable conditions to expand their own personal influence. Over matters of property reappraisal and accepting assignments of work, some capitalists were very sharp and calculating, putting their own interests first at the expense of the state. The Party and the government showed great patience towards those who were reluctant to accept joint operation. Towards the enterprises where the capitalists were co-operative, fair and reasonable policies were adopted and proper provisions were made for them and their agents, in addition to the work of persuasion and education which was carried out among them. Thanks to all these measures and with the unremitting support of the workers, the capitalists' opposition was overcome.

The Role of the Joint State-Private Operation of Individual Enterprises in the Socialist Transformation of

the Capitalist Sector. During the stage of the joint operation of individual enterprises, after taking an inventory and making a reappraisal, the assets of the capitalists were turned into private shares and the investment made by the state became state shares. Through such a measure, the means of production were turned from capitalists' private ownership into joint ownership by them and the state. The state also assigned its representatives to take part in the management and give leadership. The capitalists and their agents who previously had been in responsible positions received appointments from the government to participate in the management, but they no longer played a dominant role, because they had to follow the leadership of the state. On matters involving state-private relations, they consulted with the representatives of the state shares in their capacity as capitalists.

In a joint enterprise, both the original capital (private shares) and the investment of the state (state shares) were used for production, and dividends were distributed out of the profit according to the proportion of the shares held by each. The property of the capitalists being in the nature of capital, the dividends received by them actually were still surplus value. On the other hand, since the state shares were the property of the whole people, the dividends distributed to the state were not surplus value but socialist profit. Therefore, in a joint enterprise, two different economic aims existed. The purpose of private capital was basically to pursue surplus value, while that of the state investment was to satisfy the needs of society. However, as private capital and state investment were merged and as the state had virtually established its leadership in the enterprise, the property of the capitalists

lost its independent position though it remained capital. Private capital was, therefore, subordinate to the state plan to a very large degree and better utilized to satisfy the needs of society.

Along with the change in the ownership of the means of production, the position of the working class in these joint enterprises changed significantly also. As a part of the property of the enterprise was still owned by the capitalists, the workers remained wage-labourers, at least to some degree, since a part of their labour went into the creation of surplus value for the capitalists. Nevertheless they were to a large extent no longer wage-labourers. They worked chiefly to fulfil the state plan, doing their share in creating socialist profit for the state, because a part of the property of the enterprise belonged to the state which actually had control of the business, and the enterprise was engaged mainly in the fulfilment of the state plan.

The profit of a joint enterprise was distributed according to the principle of "dividing profit in four parts." That portion paid in dividends and bonus was divided proportionately between the state and private shares. The capitalists' share of the profit diminished, and in the meantime, owing to the change of ownership of the means of production, the character of the portion for the reserve funds had also changed, the funds then serving the expansion of socialist production more extensively.

The socialist sector of the economy penetrated deeply into the joint enterprises, and took a commanding position. This enabled the state to control not only the supply of their raw materials and the marketing of their products, but also their whole production and exchange process, facilitating the inclusion of production and

marketing in the state plan. These enterprises were sémi-socialist in nature, or as Lenin said, "three-fourths of socialism." They were superior to the elementary forms of state-capitalist enterprises accepting state orders for processing and manufacturing goods or acting as distributors or retail commission agents for the state.

One result of such a change in production relations in the joint enterprises was the galvanizing of the workers' enthusiasm, hence their potential forces for production were more fully released. Further buttressed by investments made by the state for expansion, labour productivity was raised. According to statistics, labour productivity in the joint state-private industrial enterprises rose by 214 per cent between 1950 and 1955 while that of the private industrial enterprises increased only 58 per cent during the same period. In 1955 labour productivity in the joint enterprises was twice as high as that in the private ones. Lenin said: "In the last analysis, productivity of labour is the most important, the principal thing for the victory of the new social system."¹ The rise of productivity in the joint enterprises and the consequent expansion of production and higher profits and other prosperous aspects gave further impetus to the capitalist enterprises to change over to joint operation, thus speeding the progress of socialist transformation of capitalist industry and commerce.

Contradictions During the Development of the Joint State-Private Operation of Individual Enterprises. The joint operation brought about profound changes in capitalist economic relationships. However, it did not eliminate capitalist ownership of the means of production, and

¹Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 231.

within the joint enterprises, exploitation of surplus value survived. A part of the profits was distributed according to the proportion of the state and private owners, and when the profits grew, the capitalists' share of bonus and dividends was also increased. This was detrimental to state accumulation and the morale of the workers. Furthermore, there were contradictions between the state and the private interests, i.e. between the state and the capitalists, on matters involving the operation and management of the enterprises. As the state representatives were in leading positions in the enterprises, it was possible to introduce the socialist method of operation in place of the capitalist one, so that the business might better serve the interests of socialist construction. However, the capitalists had not completely relinquished their ownership of the means of production, and their profit was more or less directly connected with the amount of the net earnings and with the questions of policy in the management. Therefore, when socialist principles of management and operation were put into effect, opposition from them was encountered. As a matter of fact, capitalists in some joint industrial enterprises showed their discontent on many occasions. They attempted to vie for power in matters of personnel appointment and in the taking of inventories to determine the amount of shares. They tried to draw the employees of higher ranks and the technical staff to their side in an effort to isolate the representatives of the state; or to sow discord between the state and the workers and other employees and between the cadres to obstruct the transformation of the enterprises. Some capitalists even pursued private ends at the expense of public interest

and engaged in speculative and other unlawful activities in the name of the joint enterprises.

At this stage of development, contradictions existed also between the joint and private enterprises. After their change-over to joint operation, a few establishments in every trade improved their business and raised their labour productivity under the direct leadership of the state. On account of their rapid growth, the majority, which had not changed over, encountered more difficulties than ever before. The establishments which had earlier come under joint operation were mostly superior in scale, finance, equipment and management to those which remained in private hands; this made it particularly difficult for the latter to carry on. This problem concerned not only the production and the livelihood of the workers and other employees in some private industrial enterprises but also the relations between the state and these enterprises. In order to resolve such contradictions, the government followed the policy of "over-all arrangement and comprehensive planning with due consideration given to all parties concerned" and began to make production plans on a trade-wide basis. But, although a lot of work was done in merging and reorganizing the enterprises, it was impossible to carry this out on a large scale because it was often handicapped by the capitalist ownership of the means of production. The development of the situation, therefore, demanded that the capitalist industrial and commercial enterprises be changed over to joint state-private operation by whole trades and that a system of paying fixed interest to the capitalists be introduced.

The Upsurge in the Socialist Transformation of Capitalist Industry and Commerce and the Realization of Joint

State-Private Operation by Whole Trades. In the latter half of 1955, following the nationwide upsurge of agricultural co-operation, the socialist transformation of capitalist industry and commerce also developed to a new stage. In the first quarter of 1956, the high tide of joint operation by whole trades swept the entire country. At the end of the same year, the joint state-private industrial enterprises, of which a few small factories later joined the handicrafts co-operatives, constituted 99 per cent of the capitalist industrial establishments and of their workers and other employees at the beginning of the year, and 99.6 per cent of their gross output value. Besides, over 48,000 individual handicraftsmen's households were merged into joint enterprises. In the year 1956, 112,000 private industrial establishments, with 1,200,000 workers and other employees, changed over to joint state-private operation. In the same year 400,000 private commercial establishments changed over to joint operation and over 1,440,000 were converted into co-operatives.

This upsurge in the socialist transformation of capitalist industry and commerce was not at all fortuitous, but a necessary outcome of the development of the socialist revolution and socialist construction in China.

In the first place, with the progress made in the planned construction of the national economy, the growth of the socialist sector, and the intensification of socialist transformation, the contradictions between the capitalist and socialist sectors, and within the capitalist sector itself, became more obvious, as was the decadent nature and backwardness of capitalism. In 1954 some of the private industrial and commercial enterprises encountered difficulties in production and marketing while many had to suspend operation partially or completely and found it

difficult to carry on. In 1955 the government gave them powerful aid by increasing the orders for processing and manufacturing goods and widening their activities as retail distributors and commission agents for the state, thus temporarily pulling them through the predicament. But the basic contradictions remained unresolved. The situation demanded that the socialist relations of production supersede the capitalist.

In the second place, the nationwide upsurge of agricultural co-operation in the latter half of 1955 indicated that the 500 million peasants refused to go along the capitalist road, and had turned the individual production of small owners into collective production based on socialist ownership. Thereafter, the alliance between the working class and peasantry was further consolidated, and the capitalist sector in the cities became more isolated. Thus, the relative strength of classes in the country underwent a profound change in favour of socialism to the disadvantage of capitalism. The great success of socialist transformation in the countryside pushed the socialist transformation of capitalist industry and commerce on to a higher stage.

In the third place, workers in capitalist enterprises, guided and educated by the Party, became ever more class conscious and better organized. They urgently demanded a change in production relations so as to free themselves from capitalist exploitation. The bourgeoisie, too, had had several years of experience under the persuasive and enlightening education of the Party and the government. In face of the amazing development in socialist construction and socialist revolution, many of them came to realize that the socialist path had become a general trend desired by all. When faced with such a

reality, particularly the ever-mounting difficulties in their own enterprises, the majority of them realized that the change had to be made, whether they liked it or not, and that the status quo could no longer be maintained. However, their minds, dominated by narrow class interests, were filled with conflicts and fears. They worried about losing their economic gains and political status. In November 1955, Chairman Mao Tse-tung invited a group of representative capitalists to a discussion at which he advised them to recognize clearly the laws of social development and become masters of their own destiny, so that they themselves could work towards a bright future. He also pointed out to them that if they accepted socialist transformation, the Party and the government would continue to thoroughly implement the "buying off" policy, make arrangements for each and every one of them with regard to their political status and work, and encourage them to change themselves from exploiters into working people living by their own labour. Chairman Mao's speech gave great encouragement to the capitalists of China and their feelings of insecurity were to a large extent dissipated. Soon afterwards came the nationwide upsurge in joint operation by whole trades. In January 1956, the capitalists in Peking were the first to send in their application to change over to joint operation by whole trades. After this was approved by the government, hundreds of thousands of private industrialists and businessmen, workers and other employees in their enterprises gathered on the Tienanmen Square to celebrate the victory of socialist transformation. In Shanghai, Tientsin and other major cities the movement for joint operation by whole trades also grew rapidly. Thus, a profound revolution in capitalist ownership of

the means of production was practically completed in a few months. To honour the occasion the capitalists held festivals and celebrations everywhere.

The Joint Operation by Whole Trades Virtually Transformed Capitalist Enterprises into Socialist Ones. After joint operation by whole trades was established, the means of production which belonged to the capitalists was placed at the disposal of the state to be utilized under a unified plan. In the meantime, the state made due arrangements with regard to the economic and political status of the capitalists. The major measures were the assessment of shares according to which a fixed interest was to be paid to them and personnel arrangements for their work and positions in the enterprises.

In the assessment of shares the assets and liabilities of a private enterprise were checked and reappraised to determine the amount of private shares according to fair, reasonable, and realistic principles. According to statistics, at the end of 1956, the total of private shares in the joint state-private enterprises in the whole country amounted to 2,400 million yuan, of which industrial shares were 1,700 million yuan; the shares in the field of commerce, catering, and personal services were 600 million yuan, and in communications and transport 100 million yuan.

Payment of fixed interest meant that the capitalists, regardless of the profit or loss of the enterprise during the entire period of joint operation, were to be paid interest on their shares at a fixed rate by the state (generally 5 per cent per annum). Payment of such interest, in general, started from January 1, 1956. The total payment is about 120 million yuan a year, and the recipients number 1,140,000.

In personnel arrangement, all those formerly employed by the capitalist enterprises were taken over by the state, and then each was given work and a position appropriate to his ability or special skill, or with due consideration of each special case. Up to the end of 1957, such provisions had been made for more than 810,000 people.

The joint operation by whole trades and the system of the payment of fixed interest were important steps in the socialist transformation of capitalist industry and commerce. Now such measures have taken effect, the means of production of the capitalists which are completely at the disposal of the state no longer play the role of functional capital. After the amount of shares was determined, the legal proprietary rights retained by the capitalists only bring them regularly a fixed sum of interest for a certain period which has nothing to do with the profit of the enterprise. That is to say, the capitalists' right to own their property has been severed from their right to use it. This severance of the two rights is different from the same phenomenon under capitalism. In the latter case, the owners only entrust some other capitalists to use their property for them. In China it was an entirely different matter. The owner-capitalists did not entrust the use of their property to others but to the state which was under the leadership of the working class. Once the state had the control of these assets, they ceased to function as capital serving capitalism, but were used by the state for production to serve socialism.

To the capitalists themselves, these assets may still seem to have certain features of interest-earning capital, for by giving up their right to use them, they obtain a certain amount of interest. However, interest-earning capital always implies full repayment, while in these

joint-state private enterprises, the state will stop interest payment after a definite period of time and turn these assets (private shares) into state property. Private shares are, therefore, not the same as interest-earning capital, but a transitional form by which private capital is changed into the property of the whole people. The realization of joint operation by whole trades, the calculation of the proportion of state and private shares in the enterprises was then unnecessary, and the state only had to provide a certain amount of funds to meet the requirements of production and operation of some enterprises.

The change of ownership of the means of production has resulted in a change of positions of the capitalists and workers in the joint enterprises. In general, the capitalists have turned over their means of production to the state. Except for the fixed interest which they draw, they have no more rights over their property. Thus they no longer function as capitalists, but as government-appointed employees working in the enterprises. In the meantime, the workers have freed themselves from the position of wage-labourers. They maintain direct relationships with the state in production; their labour is no longer a commodity and their wages are no longer a form of labour value, since they are now remuneration for their labour in the enterprise. Since the realization of joint operation by whole trades, the workers in the joint establishments, like those in state enterprises, have taken part in management. Many outstanding workers have been promoted to managerial or other leading positions. This is a profound change in production relations. Of course, since the capitalists are still drawing fixed interest from the state, they remain capitalists. A small

part of the value created by the workers goes into their hands in the form of interest on their shares. Hence the capitalists' exploitation of workers has not been completely and finally eliminated.

However, so that the socialist transformation of the capitalist sector of the economy may proceed in a smooth manner, the periodical fixed interest payments to the capitalists are necessary. By such a measure, the development of the productive forces is protected, and social production is not disrupted in the course of changing production relations. It also gives the capitalists ample time to make adjustments before the nationalization of their enterprises takes place, so that they do not fear any abrupt changes in their standard of living. This helps the remoulding of their political views and ideology, and is also helpful in gradually changing them from exploiters into working people living by their own labour.

According to the above analyses, we can see that in a joint enterprise, there exists a dual relationship between the capitalists and the workers. On the one hand, the relationship of equality among colleagues prevails, but on the other hand, the relationship between the exploiting and the exploited still survives. Such a relationship and contradiction between classes will continue to exist for a rather long period of time. This, however, is not the dominant thing. It is instead the socialist relationship which has become important. This is because after the realization of joint operation by whole trades, the capitalist economic relationship was mainly replaced by that of socialism, and the joint state-private enterprises became basically socialist in nature.

The Economic Reorganization of the Joint State-Private Enterprises and Their Gradual Transition to State

Enterprises. Although the state took direct control of the joint enterprises after the change-over by whole trades, and they became, therefore, little different from state enterprises, yet their scattered, uneven and irrational distribution which had existed under capitalism was not changed all at once. Besides this, the management of these enterprises was not fully adapted to the needs of the new form of ownership. Such a situation naturally inhibited the expansion of the productive forces to a certain degree. In view of this, the state immediately started the economic reorganization of these enterprises. Mergers, the internal reorganization of industrial enterprises and the readjustment of the trade networks were carried out according to the principle of "let the larger and more advanced enterprises lead the smaller and backward ones." Their equipment, funds, technical and labour forces were redistributed under a unified plan to meet the needs of the whole country. Thus, the contradictions, which had existed between the large, advanced enterprises and the small, backward ones and which could not be easily resolved before joint operation by whole trades, were then basically overcome. The scattered, backward state of the capitalist sector was gradually changed. Division and co-ordination of work between different enterprises and trades in a socialist fashion replaced competition and anarchy in production, which were characteristic of capitalism. In the meantime, within the enterprises, various systems were reformed, socialist emulations promoted, and improvements made in management and in business methods. As a result, socialist methods of management took the place of the former capitalist ones. Where necessary, some of the establishments were rebuilt

or expanded, and some others merged or closed down. After such reorganization and improvement, labour productivity rose noticeably. In 1956 the gross output value of the jointly operated industrial enterprises was 32 per cent more than in 1955. The volume of retail sales in the joint state-private stores, co-op stores and co-op groups increased by over 15 per cent in the same period. A new atmosphere prevailed in management and production. Many factories improved the quality of their products, added new varieties and reduced production costs. Many retail stores also widened the range of their goods and improved their ways and methods of selling. In nearly all the joint enterprises, the Party gave more effective leadership. Wage rates were readjusted step by step; the working conditions of the workers and other employees, their material well-being and cultural life were improved. All these achievements fully proved the superiority of joint operation by whole trades.

Naturally, the economic reorganization and reform of these enterprises could not be completed overnight. In 1956-57, the work was carried out according to the principle of "letting the majority of them maintain their status quo while readjusting only a small number of them." This readjustment was limited to within the enterprises which had changed over to joint operation. In 1958, however, after the socialist revolution scored a victory on the political and ideological fronts and during the big leap forward in industrial and agricultural production throughout the country, economic reorganization was undertaken on a much larger scale and more thoroughly. All boundaries between enterprises, between trades and between state, joint state-private and co-operative enterprises were broken down. All plans:

and readjustments were made under a unified scheme. A number of the employees in commerce were transferred to industry, many small trades merged with the large ones, and many joint state-private enterprises merged with state enterprises (with the fixed interest and positions of the capitalists retained). After the nationwide establishment of the people's communes, many small enterprises in the countryside became commune-operated. Wage systems in the joint state-private enterprises were basically the same as those in the state enterprises. In fact, these joint enterprises have become state enterprises owned by the whole people, except for the fixed interest paid by the state to the holders of private shares. The changes in production relations provided favourable conditions for the expansion of the productive forces and the big leap forward in production.

4. The Remoulding of the Capitalists

The Remoulding of the Capitalists as an Important Task in China's Socialist Revolution. The socialist transformation of capitalist industry and commerce in China in the transition period involves the twofold task of transforming capitalist enterprises and remoulding the capitalists. Socialist transformation of the capitalist sector of the economy is a special form of class struggle in this country. It is inconceivable that the capitalists, as a class, will voluntarily step down from the stage of history. To enable them to accept socialist remoulding not too reluctantly and change their deep-rooted bourgeois political viewpoint and way of life, it is necessary to go through devious and complicated struggles both in

the economic field and in political and ideological spheres. These struggles generally take the form of peaceful remoulding, that is, through persuasion and education. On the one hand, the political and ideological remoulding of the capitalists brings into play their positive side which serves socialism and reduces their resistance to socialist transformation; while, on the other hand, it gradually changes them from exploiters into working people living by their own labour.

The remoulding of the capitalists, being an important task in the socialist revolution, must go hand in hand with the transformation of their enterprises, that is, both the enterprises and the men must be changed. Capitalist ownership of the means of production is the material basis of bourgeois ideology. No effective change can be brought about in their ideology without the transformation of the enterprises. Conversely, since the capitalists own capital, it will be difficult to realize the peaceful transformation of their enterprises if they are not persuaded through education to accept the policy of the state. While this dual transformation should go hand in hand, there may be a difference in emphasis at any given period, either on the one or on the other, depending on the prevailing conditions. For instance, before the transformation of the enterprises is virtually completed, the emphasis may be on changing the enterprises; after that, it may be on remoulding the capitalists.

Remoulding the Capitalists While Transforming Their Enterprises. The work of educating and remoulding the capitalists is subordinate to the task of the state in the utilization, restriction and transformation of the capitalist sector. Its content and methods vary with different stages. Firstly, during the rehabilitation of the national

economy, the education of the capitalists was aimed mainly at strengthening their political opposition to imperialism, feudalism and bureaucrat capitalism and arousing their patriotic sentiment and law-abiding spirit. Such education helped them to accept the direction given by the state led by the working class and follow the lead of the socialist state sector of the economy, while being guiding them to gradually take the road of state capitalism.

Before the success of the democratic revolution, a section of the national capitalists seriously entertained the idea of a "middle line," which, however, went bankrupt when the democratic revolution was completely won. Nevertheless, during the early period of transition some capitalists were reluctant to sever their ties completely with the feudal landlords and bureaucrat capitalists. A greater number of them had illusions and fears regarding imperialism. They were afraid that imperialism and the Kuomintang reactionaries might come back. Many did not believe that the Communist Party and the People's Government were capable of rehabilitating and expanding the national economy. They hoped to develop capitalism as a "rival" of the socialist state sector, the leadership of which they were not ready to accept; still less were they ready to accept socialist remoulding. Confronted with such a situation, the Party and the People's Government carried out complicated struggles and patiently undertook their education.

During the period of economic rehabilitation, the great war of resisting U.S. aggression and aiding Korea was waged while land reform and the movement for suppressing counter-revolutionaries were launched. All these completely broke off the ties of the capitalists with

the imperialists, feudal landlords and bureaucrat capitalists. In the economic field, the speculative activity of the capitalists was combated. Prices having been successfully stabilized, a policy of readjusting industry and commerce was enforced. The capitalists were encouraged to engage in production and business under the direction of the state sector and actively participate in the work of rehabilitating the national economy. All this gave them a deep and most realistic education. Under such conditions, the Party and the government held various conferences with them, organizing them to study the policies and directives of the Party and the government. These measures succeeded in gradually winning over the majority and putting them on the right track.

To be sure, the work of educating the capitalists did not proceed smoothly. In this period as the socialist sector of the economy rapidly grew, the capitalist sector also developed to a certain extent. The struggle between taking the socialist or capitalist roads became sharp. A certain number of capitalists who had a strong desire to develop capitalism resorted to unlawful means to obtain high profits, which came to a climax in the campaign against the "five evils" in 1951, in which the Party and the government led the working people of the whole country in launching a large-scale mass movement, i.e. the *wu fan* movement. This gave the capitalists a profound education in patriotism and the observance of law. They learned to know through practical experience the tremendous strength of the working class. They now understood that the leading position of the working class and state sector was unassailable and that the only way out for them was to observe state policies and decrees and to carry on production and their business in a le-

gitimate manner. Changes in class alignments in the country brought about the emergence of a group of progressives among the capitalists. These progressives expressed their readiness to accept socialist remoulding. They were the persons who later played a leading role in the socialist transformation of capitalist industry and commerce.

Secondly, in 1953, as planned large-scale socialist construction began, the socialist transformation of the capitalist sector also went ahead step by step according to plan. During this period, while the capitalists' education in patriotism and the observance of law continued, they were further educated in accepting socialist transformation by being acquainted with the Party's general line in the transition period, the Constitution of the People's Republic of China, the First Five-Year Plan for the Development of the National Economy, and so on.

The Party's announcement in 1953 of the general line of the state during the transition period came as a big shock to the capitalists. It spelt an end to their illusions that the two sectors of economy — socialist and capitalist — might exist side by side for a long time and that "the New Democracy would live for ever." Before this announcement, the struggle between the working class and the capitalists had been mainly one between enforcing and resisting restriction. After the announcement of the general line, the question of abolishing capitalism and of changing capitalist ownership, was put on the agenda. The shock to the capitalists was quite natural. Nevertheless, there was another side. The announcement of the Party's general line together with the beginning of large-scale planned socialist construction gave a tremendous impetus to the working people throughout the country,

inspiring their unlimited confidence and courage. The grand vistas opened up for socialist expansion also made a significant impact upon the capitalists and made them visualize the country's splendid future. The situation being as it was, more and more of them, by systematically studying the general line in the transition period, the Constitution of the state and the First Five-Year Plan, gradually realized that socialist transformation was an irresistible current or what was called "the general trend and the people's inclination." A section of the capitalists began to express their earnest desire to accept socialist remoulding.

The change-over from capitalist ownership to socialist ownership was effected step by step through the transitional forms of state capitalism. To the capitalists this was a practical education. In previous years, when they had accepted government orders for processing and manufacturing goods, and acted as retail distributors or commission agents for the state, they had, quite unconsciously, taken the first step in socialist transformation. From practical experience they came to appreciate the benefits of carrying on production and business under the leadership of the state sector and according to state plan. The flourishing of those enterprises which had earlier changed over from private to joint state-private operation furnished an attractive example, encouraging them to take a further step in accepting socialist transformation. In the course of joint state-private operation the state gave suitable work to those capitalists and staff members who had formerly been employed in the enterprises, besides paying dividends and bonus to all capitalists, thus helping them to maintain their living standards. Many-sided education and careful consideration of their in-

terests brought good results. In 1956, influenced by the nationwide upsurge in socialist transformation and spurred on by the workers in private enterprises, the capitalists throughout the country requested that their enterprises be changed over to joint state-private operation — not one enterprise after another, but all together trade by trade.

Thirdly, after the completion of the change-over to joint state-private operation by whole trades, capitalist ownership of the means of production was virtually brought to an end. Consequently, a capitalist standpoint became out of date and reactionary. So, the emphasis in the programme of the Party and the government for the education of the capitalists since has been to help them abandon such a standpoint completely and become working people living by their own labour. This task is even more difficult. Since then, however, certain favourable conditions have prevailed. After the virtual completion of the change-over, for instance, class alignments in the country have radically changed; the national bourgeoisie has lost its economic base and serious splits have occurred in its own ranks. The progress in socialist transformation in the past few years has brought about great changes in social concepts and practices. Labour is to be looked upon as an honourable occupation and living by exploiting others as a disgrace. By far the greater number of the sons and daughters of the capitalists were determined to live by their own labour as working people after education by the Party. They refused to inherit the property of their fathers or elder brothers as this would give them the unenviable title of "capitalists." Feeling more and more isolated, an increasing number of capitalists expressed their willingness to accept socialist remoulding.

In the enterprises where they, in the capacity of state employees, began to work regularly with the cadres delegated by the government, their relations with the working class began to change. These new things provided favourable conditions for their education and remoulding.

In the light of such conditions, the Party and the government decided to make practical work in the enterprises the principal way in which the capitalists could be educated and remoulded. The specific measures included: (1) Improving the relationship between the state representatives, the workers and those representing the capitalist side as co-workers in the joint state-private enterprises, so that the latter could discharge their duties under the leadership of the state representatives and play an active role; (2) Organizing courses for extensive study of political theories for the capitalists on a voluntary principle — education in socialist ideology conducted through short-term classes, spare-time schools of political study, and so on; (3) Organizing those representing the capitalist side to join in the socialist emulation campaigns of the workers and other employees, encouraging them to change, through practical experience, their habit of putting their own interests first; to learn how to serve the people and socialism, emulating the great collective and selfless spirit of the working class.

The Effects of the Rectification Campaign and Anti-Rightist Struggle on the Remoulding of the Capitalists. In 1956 a decisive victory was achieved for socialist revolution on the economic front. But the principal contradiction in the country — that between the working class and the bourgeoisie and that between taking the socialist or capitalist road — was not finally resolved.

The contradiction between socialism and capitalism was generally expressed in the political rather than in economic aspects. The principal content of class struggle then became a political and ideological struggle.

In 1956, taking advantage of the "Hungarian events," international imperialism launched an anti-Soviet and anti-Communist campaign. An anti-socialist wave was also rising among the Chinese bourgeoisie. By the spring of 1957 the activities of the bourgeois Rightists reached a point of frenzy. Under cover of the Party's rectification campaign, they made an attempt to restore capitalism by staging a replica of the "Hungarian events" in China. Among the capitalists there were some Rightists who did their best to discredit socialism and the working class while extolling capitalism and the bourgeoisie. They alleged that the bourgeoisie no longer had a dual character but only a positive side and that "fixed interest was no exploitation." They demanded that the state representatives be withdrawn from the joint enterprises and that the fixed interest be paid for twenty years, while opposing ideological remoulding. Actually, on account of their anti-Communist and anti-socialist character, the bourgeois Rightists degenerated into reactionaries and became agents for imperialism and the Kuomintang reactionary clique.

These bourgeois Rightists were, after all, merely a handful of reactionaries who opposed the Communist Party and socialism. They were doomed to failure in their vain attempt to contend with the people of the whole country under the leadership of the Communist Party. After the anti-Rightist struggle began in full force, the Party actively led the working people and the capitalists in this nationwide struggle, smashing the Rightists'

attacks, exposing their true reactionary face and completely isolating them. They had to bow before the people; admitting their wrongdoing. The Party and the government sternly criticized the bourgeois Rightists ideologically while treating them leniently in administrative discipline to afford them an opportunity to correct and reform themselves. To the national capitalists this struggle was a most profound education. The great majority of the hitherto middle-of-the-roaders were able to raise their understanding and came to realize that it was "no good" to be Rightists, or to take the capitalist road and oppose the Communist Party and socialism. At the same time the ranks of the Leftists supporting socialism and the Communist Party's leadership further swelled.

On the basis of success in the anti-Rightist struggle, while a rectification campaign was going on among the government functionaries and working people, the capitalists also conducted a rectification campaign among themselves. Its aim was to eradicate the capitalist standpoint and establish a socialist one through education and remoulding. During this campaign the capitalists carried out self-examination based on the six criteria of judging whether words and actions were right or wrong as discussed by Mao Tse-tung in his book *On the Correct Handling of Contradictions Among the People*. Through various forms, such as a full and frank airing of views, great debates and "giving your heart to the Party," a movement for self-criticism and self-remoulding took place among them.

The majority of the capitalists saw from the rectification campaign that they did have a dual character and that it was really necessary for them to accept socialist

remoulding politically and ideologically. They learned that under conditions prevailing in China the only way out was for them to become honourable socialist working people after complete remoulding. Many of them changed their political outlook to a greater or less degree. During the great leap forward in industrial and agricultural production in 1958, a good number of them became more or less active. Then, the Party brought forward a policy of encouraging the capitalists to energetically serve the cause of socialism and remould themselves by taking part in the great movement for socialist construction. The Party guided the initiative they had shown during the rectification campaign in the direction of serving socialism, encouraging them to do their share in technological reforms and in the movement for increasing production and practising economy, so that through practical experience they might continue their political and ideological remoulding. Significant achievements have been registered in the work of remoulding the capitalists. This task, however, is not completed and it will still take a long time to abolish the capitalist class through a complicated struggle.

China is still in the period of transition from capitalism to socialism. Classes still exist. The transformation of the old system of social economy has been virtually but not yet completely achieved. The capitalists still draw fixed interest. In the countryside there are still some privately owned means of production and markets for private activities. The force of bourgeois and petty-bourgeois habits will take a long time to eradicate. The time for the complete remoulding of the landlords, rich peasants, counter-revolutionaries, bad characters and Rightists is still far off. Bourgeois reactionary ideas and

political activities in town and country have not yet been thoroughly uprooted though they were dealt a decisive blow during the rectification campaign and anti-Rightist struggle in 1957. These reactionary ideas and political activities still find a market among a section of the well-to-do middle peasants and intellectuals. Whenever the opportunity presents itself, these people will make trouble. It is, therefore, necessary to continue learning and obeying the laws of development of the class struggle in China during the transition period and work for the completion of the socialist revolution on the economic, political and ideological fronts.

CHAPTER FOUR

THE BIG LEAP FORWARD IN SOCIALIST CONSTRUCTION AFTER THE BASIC COMPLETION OF THE SOCIALIST TRANSFORMATION

In 1956 a decisive victory was achieved in the socialist transformation of agriculture, handicrafts and capitalist industry and commerce, basically completing the socialist revolution as far as the ownership of the means of production was concerned. Socialist construction began according to plan in the course of large-scale socialist transformation. The two were closely interrelated and reinforced each other. The development of the powerful socialist state sector of the economy provided the material basis for the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. Conversely, the practical completion of the transformation released the productive forces and opened a broad path for the rapid expansion of socialist construction. When the socialist transformation of capitalist industry and commerce was virtually completed, it was possible for the state to rebuild, expand, merge and reorganize more than 100,000 former privately-owned factories, to fully develop their production potential and include their entire output capacity in the state plan. Readjustment and reorganization of the former private commercial enterprises was also

effected on a large scale so that they were more rationally distributed, satisfied the needs of the people in town and country better, and finally formed a unified socialist market. Thus, full scope was given to the increase of production and commodity exchange without fear of speculation and manipulation by private capital. In agriculture and handicrafts, co-operation released productive forces. Agricultural co-operation broke down the limitations caused by private ownership of land and individual small-peasant production. A more rational use of labour power, land, draught animals and farm tools was made; various small-scale irrigation and water conservancy projects were carried out which made it easier for the state to include agricultural production in its plan. In handicrafts, co-operation resulted in a division of labour and co-ordination on a large scale and a gradual advance from hand to machine work. In two or three years many handicraft co-operatives were turned into mechanized or semi-mechanized factories. A more important point was that the establishment of the socialist system of economy liberated the workers—the most vital factor in the productive forces. It deeply stirred their initiative for production. They zealously responded to the call of the Party and the government to take their full part in great construction projects. The success of the socialist revolution on the political and ideological fronts further raised the working people's socialist consciousness. Their skyrocketing energy found full expression. They were high in spirit, strong in morale and firm in determination. The revolutionary courage and enthusiasm of hundreds of millions of working people was the decisive factor in the leap forward of China's socialist construction.

The purposes of socialist construction are to develop the productive forces, to build a socialist material and technological basis and to expand and consolidate socialist relations of production. Having waged long revolutionary struggles led by the Communist Party, the broad masses of the working people (not only the working class but also the impoverished peasants) show great socialist initiative. The socialist transformation of agriculture, handicrafts and capitalist industry and commerce was completed before the industrialization of the country which previously was economically backward. This was a very good thing. But the practical establishment of socialist relations of production does not mean that a socialist system has been fully built up. During the next few years, it is necessary to set up a large advanced machine-building industry and carry out a technical revolution in agriculture and other branches of the national economy so that the industrialization of the country, and mechanization and electrification of agriculture can be brought about. Only thus can the continuous expansion and perfection of socialist production and the uninterrupted rise of labour productivity be realized, the fuller satisfaction of the constantly rising material and cultural requirements of the working people be secured on the basis of production increase, and the socialist system consolidated politically and economically.

In 1955 Mao Tse-tung said:

Only when socialist transformation of the social-economic system is complete and when, in the technical field, all branches of production and places wherein work can be done by machinery are using it, will the

social and economic appearance of China be radically changed.¹

China's economy remained backward even after the basic completion of the socialist transformation. From the founding of the People's Republic to the successful completion of the First Five-Year Plan, the gross output value of industry increased sixfold; steel production rose from 160,000 to 5,350,000 tons and coal from over 32,000,000 to 130,000,000 tons. Such a high rate of increase is inconceivable in capitalist countries. But in the level of industrial development, China is still far behind the most advanced countries. (In 1957 the steel and coal production of the Soviet Union was 51,000,000 tons and 463,000,000 tons respectively, and in the United States it was 102,000,000 tons and 470,000,000 tons respectively.) In agriculture, China led the world in total grain production in 1957. But the per capita share reached only 286 kilogrammes, while in the Soviet Union it was 655 and in the United States, 928. Agricultural and light industrial products cannot yet fully satisfy the constantly rising requirements of the people nationally. All this explains why the material basis of the country is not yet strong enough. It is because China has not yet built herself into a modern industrial country and her industrial and agricultural production is still relatively backward that imperialism still dares browbeat China, and the Kuomintang reactionaries and the bourgeois Rightists have the effrontery to raise a hue and cry. The broad masses of the working people have not yet succeeded in raising their very low standard of living.

¹Mao Tse-tung, *The Question of Agricultural Co-operation*, Foreign Languages Press, Peking, 1959, p. 34.

Having completely broken the shackles of imperialism and feudalism, shaken off the fetters of capitalism and won the decisive victory in the socialist revolution on the political and ideological fronts, the working people of China now demand that the economic backwardness of their country be quickly changed. Their keen and strong desire for rapid socialist construction is like the erupting of a live volcano. The great Chinese people will use their own hands to change their own destiny and turn China from a backward agricultural country into an advanced industrial one within the shortest possible time.

The Principal Task of Socialist Construction. The principal task of socialist construction is to build China into a great socialist country with a highly developed modern industry, agriculture, science and culture. Success in fulfilling this task will greatly raise the production level, and more fully satisfy the constantly rising material and cultural requirements of the people with ever more abundant products. Communist relations in the economic field and in ideology will be developed gradually and so a foundation will be laid for the transition from socialism to communism.

Industrialization is first on the programme for the building of a complete socialist industrial system. Industry will produce all kinds of machinery, equipment and materials needed for extended socialist production and technological reform of the national economy, as well as various consumer goods required directly by the people. Of course, thanks to the rapid economic development of the socialist countries headed by the Soviet Union and the increase of economic aid and co-operation between them, China finds herself in a vastly different

situation in her period of socialist construction from that which faced the Soviet Union in her early years when she was economically isolated and helpless. This does not mean, however, that there is no need for China to build a complete industrial system of her own. On the contrary, the internal and external situation of the country demands it. To provide China with a high level of economic and cultural life and modern national defence, the national economy which has long remained backward, must be changed as quickly as possible, so that technological reform and the mechanization and electrification of agriculture can be carried out. It is obvious that a big country like China with a large population, rich resources and enormous needs cannot depend for a long period on imports of machinery and equipment in large amounts if she is to attain this great objective. The only way is, therefore, for China internally to build a complete industrial system of her own. Externally, the establishment of a powerful industry in China will greatly accelerate the growth of the economy of all the socialist countries, enable the socialist camp to surpass the imperialist camp economically at an even faster rate and enhance their strength in safeguarding world peace. In the political report of the Central Committee of the Chinese Communist Party to the Eighth National Congress of the Party in September 1956, Liu Shao-chi said:

In order to satisfy the needs of socialist expanded reproduction in our country, fulfil the task of socialist industrialization, strengthen international co-operation between the countries of the socialist camp, and help to promote a common economic upsurge in all socialist countries, we should build, in the main, an integrated

industrial system within the period of three five-year plans on the basis of our large population and rich resources.¹

China's socialist construction involves the setting up of a complete industrial system on a national scale as well as local industrial systems in each co-ordinated area and in a number of provinces and autonomous regions. Each of these will have different special features and be at different stages of development. The population of each province or autonomous region, with a few exceptions, exceeds 10,000,000 — the largest being 60,000,000-70,000,000. Only a few of these, however, have a relatively strong industrial foundation; while in the rest industry is very weak or non-existent. In order that the rich resources of the interior regions may be fully utilized and the uneven economic development in different parts of the country remedied, greater efforts must be made to build new industrial bases while strengthening the existing ones. If possible, every province and region should develop its own industry and become gradually industrialized. Consideration must be given to the local resources and the industrial sites must be distributed near raw materials and fuel and the consumers. Various natural conditions and resources in different regions necessitate differences in industrial systems, in special characteristics and in degrees of development. As modern industry is an extremely complicated and integrated undertaking, division of labour and co-ordination between areas and between branches of industry are

¹*Eighth National Congress of the Communist Party of China*, Volume I Documents, Foreign Languages Press, Peking, 1956, pp. 43-44.

necessary. The schedule of construction must follow the order of importance in accordance with the unified construction plan of the country as a whole.

The building of a complete industrial system in China is not only absolutely necessary but perfectly possible. Her vast territory is endowed with rich and varied natural resources and other basic conditions for developing all branches of industry. She has 650 million industrious and brave people. Her strongest force of working people has been liberated from the bondage of the old relations of production; they enthusiastically demand a speedy change in their economic and cultural backwardness. The extensive domestic market can absorb large quantities of industrial products and agriculture can supply her growing industry with a great amount of needed raw materials from the farms. China enjoys the fraternal assistance of the Soviet Union and other socialist countries which are supplying all kinds of machinery and equipment required for economic construction. This will speed up the building of heavy industry and the training of scientific and technical personnel. A more important point is that an advanced socialist economic and political system has already been established. All these conditions are extremely favourable for China's development into a highly industrialized country.

Clearly, the setting up of a complete industrial system on a national scale does not imply that all industrial products must be made at home nor that economic co-operation with the fraternal socialist countries and trade with other friendly countries is unnecessary. It means only that China should principally depend on home production for all vital products and those of which large quantities are needed. Since considerable quantities and

various kinds of capital and consumer goods are needed, some of them still have to be imported. At the same time China has to export some of her industrial and agricultural products to satisfy the needs of fraternal and other friendly countries. After the building of a complete industrial system, China must continue to develop broad economic co-operation with the socialist countries and, on the basis of equality and mutual benefit, expand trade with different countries in the world. In the present era, production has been highly socialized. No country can develop its own economy by closing its doors to others. Socialist construction, of course, can still less proceed in isolation. It will be a mistake to entertain such an idea.

A complete industrial system is the material basis for carrying out technological reforms in the entire national economy. It will result in a large agriculture being modernized through mechanization and electrification. The two basic departments of social production — agriculture and industry — depend on each other. Socialist society calls for both a large modern agriculture and a large modern industry. Without the former, there can be no solid basis for the latter. In China a leap forward has been made in agriculture, thanks to the basic completion of socialist transformation, the success of the socialist revolution on the political and ideological fronts, and the high revolutionary enthusiasm of the peasant masses under the correct leadership of the Communist Party. But there is no reason for complacency with what has been achieved so far. In order that agricultural production may make continuous leaps forward, it is necessary to carry out mechanization and electrification

gradually and in a planned manner to complete the technical revolution in agriculture.

Although not completed yet, it will not be so very long before a powerful heavy industry necessary for the mechanization and electrification of agriculture will be built step by step at which time labour productivity will be steeply increased. By then, there will be abundant grain and other farm produce to satisfy the daily needs of the people and the requirements of industrial production. What is more, it will be possible to transfer 50 per cent or more of the manpower from agriculture to industry and other branches of the economy and to further raise the economic and cultural standards of the country. Mechanization and electrification will also reduce the peasants' working hours, giving them more time for obtaining education in general and acquiring scientific knowledge, raising their technical level and laying a foundation for the gradual elimination of the differences between town and country.

Modern industry and agriculture must be accompanied by modern communication and transport networks, the importance of which has been keenly realized in China's industrial construction. Without modern means of communication and transport, it is impossible to set up a powerful modern industry. Mechanization and electrification of agriculture also demand the establishment of modern communication and transport networks in the vast countryside. In a big country like China, there are at present only 30,000-odd kilometres of trunk railway lines and 2,000,000 tons of shipping (including tugboats). Obviously, this falls far below the needs of the fast-expanding industrial and agricultural production. Of course, the building of modern communication and trans-

port network is impossible without a powerful heavy industry. So it must go hand in hand with the industrialization of the country.

Socialist construction includes cultural as well as economic development. Age-long imperialist and feudal domination in China caused her culture and science to lag behind. The majority of the working people were illiterate and scientific and technical personnel were few in number. These conditions have made the socialist industrialization of the country and the technical reform of the national economy extremely difficult. It is, therefore, necessary to build modern science and culture simultaneously with modern industry and agriculture, so that the technical and cultural revolutions may proceed side by side.

Culture is part of the superstructure. It is determined by the economic base and in turn actively affects the formation and consolidation of that base. Cultural development must, therefore, serve economic construction. To turn China into a country with highly developed modern science and culture, it is necessary to accomplish the following things in a relatively short period of time: illiteracy must be wiped out; primary education must be universal; secondary school education must be universal and achieved step by step; higher education must be developed; scientific research institutions expanded and a large number of socialist-minded persons with a high degree of general education and complicated modern scientific and technical knowledge must be trained. Health work and physical culture should be promoted, the most common diseases stamped out, superstitions erased, bad customs and habits changed and desirable ones introduced. It is also necessary to stimulate a noble

national spirit, unfold mass cultural and recreational activities, develop a rich and colourful socialist art and literature and learn as quickly as possible the important new sciences and technique so as to catch up with the most advanced world standards in science and technology.

On the eve of the founding of the People's Republic of China, Mao Tse-tung said:

With the upsurge in economic construction, there will inevitably appear an upsurge of cultural construction. The time when the Chinese were regarded as uncivilized has passed. We will appear in the world as a highly cultured nation.¹

Such a time is not very far off.

Socialist construction brings about the rapid development of the social productive forces. As these are developed, the relations of production must be readjusted and changed in good time so as to ensure their continuous and unhampered expansion. In the course of socialist construction, therefore, relations of production necessarily change step by step with the development of the productive forces. Socialist collective ownership in China will inevitably pass on step by step to socialist ownership by the whole people. From then on, socialist society will advance further, and gradually become a communist society where the principle of "from each according to his ability, to each according to his needs" prevails.

The General Line for Socialist Construction. Both in socialist construction and transformation there is a struggle to decide which of two roads to take and which of

¹Chairman Mao's opening address at the First Plenary Session of the Chinese People's Political Consultative Conference, *Hsin-hua Monthly*, No. 1, 1949, p. 4.

two methods to use. In the struggle whether to take the socialist or the capitalist road—the former had virtually defeated the latter following the basic completion of the socialist transformation of the national economy as a whole and the success of the socialist revolution on the political and ideological fronts. However, that regarding which of the two methods to use—the one bringing greater, quicker, better and more economical results; the other smaller, slower, poorer and more costly results—will be protracted. This is, in essence, a reflection of the struggle concerning which road to take. It was waged during the socialist transformation of the ownership of the means of production, and it has showed itself even more clearly in the course of socialist construction.

Which of the two methods should be adopted in building socialism—the one bringing quicker and better results or the one bringing slower and poorer results? The Central Committee of the Party and Mao Tse-tung have always been in favour of the former. In the winter of 1955, when the socialist revolution in the ownership of the means of production was on the threshold of a decisive victory and an upsurge in production and construction by mass effort was beginning to take shape, Mao Tse-tung, taking into full consideration the advantages of the socialist economic system and the people's boundless revolutionary enthusiasm, predicted:

In the future there will be all sorts of enterprises that people have never dreamed of, raising our agricultural output to several times, a dozen times, perhaps scores of times, its present level.

The development of industry, transportation and trade will go even further beyond the bounds of our

ancestors' imagination. Science, the arts, education and public health will do the same.¹

He also pointed out:

The problem facing the entire Party and all the people of the country is no longer one of combating rightist conservative ideas about the speed of socialist transformation of agriculture. That problem has already been solved. Nor is it a problem of the speed of transformation of capitalist industry and commerce, by entire trades, into state-private enterprises. That problem has also been solved. In the first half of 1956 we must discuss the speed of the socialist transformation of handicrafts. But that problem will easily be solved too.

The problem today is none of these, but concerns other fields. It affects agricultural production; industrial production (including state, joint state-private and co-operative industries); handicraft production; the scale and speed of capital construction in industry, communications and transportation; the co-ordination of commerce with other branches of the economy; and the co-ordination of the work in science, culture, education, public health, and so on, with our various economic enterprises. In all these fields there is an under-estimation of the situation which must be criticized and corrected if the work in them is to keep pace with the development of the situation as a whole. People's thinking must adapt itself to the changed conditions. Of course, no one should go off into wild flights of fancy, or make plans unwarranted by the objective situation,

¹*Socialist Upsurge in China's Countryside*, Foreign Languages Press, Peking, 1957, p. 286.

or insist on attempting the impossible. The problem today is that rightist conservatism is still causing trouble in many fields and preventing the work in these fields from keeping pace with the development of the objective situation. The present problem is that many people consider impossible things which could be done if they exerted themselves. It is entirely necessary, therefore, to keep criticizing these rightist conservative ideas, which still actually exist.¹

Mao Tse-tung summed up the above-mentioned ideas in the slogan of "achieving greater, quicker, better and more economical results in building socialism," for which he also worked out a series of important policies.

Acting upon the practical experience gained in the people's struggle in the past few years and the development of Mao Tse-tung's thought, the Party's Central Committee, at the Second Session of the Party's Eighth National Congress held in 1958, put forward the general line of "going all out, aiming high and achieving greater, quicker, better and more economical results in building socialism." The following are the basic points of this general line:

(1) To mobilize all positive factors and correctly handle contradictions among the people;

(2) To consolidate and develop socialist ownership by the whole people and collective ownership and consolidate the proletarian dictatorship and proletarian international solidarity;

(3) To gradually carry out the technical and cultural revolutions, while completing the socialist revolution on the economic, political and ideological fronts;

¹*Ibid.*, pp. 9-10.

(4) To develop industry and agriculture simultaneously while giving priority to heavy industry;

(5) To develop, under centralized leadership, and with over-all planning, proper division of labour and co-ordination, national industries simultaneously with local industries and large enterprises simultaneously with medium-sized and small enterprises.

By these measures China will be built into a great socialist country with a modern industry, agriculture, science and culture in the shortest possible time.

The Party's general line of "going all out, aiming high and achieving greater, quicker, better and more economical results in building socialism" is an embodiment of the revolutionary will and determination of the 650 million Chinese people. It is the only correct Marxist-Leninist line which combines objective possibilities with the revolutionary energy of hundreds of millions of people. It is the creative application of the universal truth of Marxism-Leninism to China's practical conditions by the Chinese Communist Party and Mao Tse-tung, the great leader of the people of all nationalities in China. "To go all out and to aim high" requires that importance is attached to the creative spirit and revolutionary energy of hundreds of millions of people and all positive factors are mobilized to accelerate the tempo of socialist construction. To achieve greater, quicker, better and more economical results in building socialism, it is imperative to go all out and aim high. Efforts must be exerted, not slackened. Exertion or slackness yields entirely different results under the same objective conditions. "To achieve greater, quicker, better and more economical results" gives concrete expression to the objective law of the rapid development of socialist economy. Speed is the

basic question in socialist construction. To guarantee a high speed, it is necessary to see to it that greater, quicker, better and more economical results are achieved. It is wrong to emphasize "greater and quicker results" and neglect the "better and more economical results," and even more so to emphasize the latter and neglect the former. Only when equal attention is paid to greater, quicker, better and more economical results can the continuous leap forward in the socialist national economy be ensured, while achieving a combination of great quantity and good quality. The general line for socialist construction, therefore, aims at developing socialist economy at top speed. Because the Party has fully estimated the enormous vitality of the socialist economic and political systems and the boundless revolutionary energy of the broad masses of the liberated working people which it leads, it is possible to mobilize all positive factors, turn all favourable conditions to good account and tap all potential, thus ensuring the development of the socialist economy at high speed.

The Party's general line for socialist construction has laid down a whole set of policies for well-balanced national construction known as "walking on two legs." These policies call for the simultaneous development of industry and agriculture and heavy and light industries giving priority to heavy industry; the simultaneous development of national and local industries; the simultaneous development of large, medium-sized and small enterprises and the simultaneous employment of modern and indigenous methods of production. This whole set of policies aims at building socialism by combining objective possibilities with the revolutionary energy of hun-

dreds of millions of people and mobilizing all positive factors.

Firstly, the policies concern the simultaneous development of industry and agriculture and heavy and light industries giving priority to heavy industry. To develop the national economy at top speed, priority must be given to the development of heavy industry so as to provide an adequate supply of machinery, equipment, raw and other materials for the large-scale construction and technical reform of the country's national economy. The economic foundation of China which is a big country was extremely weak in the past. It will be impossible to end economic backwardness unless she has a powerful heavy industry of her own. During the period of the First Five-Year Plan, therefore, the policy of giving priority to the development of heavy industry was adopted, with emphasis on 166 major construction projects to be built with the help of the Soviet Union. During the period of the Second Five-Year Plan, this policy will be continued. Industries to be developed quickly include iron and steel, non-ferrous metals, machine-building, electric power, coal, petroleum, chemical and building material. This will lay a firm foundation for the country's socialist industrialization.

The development of heavy industry as a priority must go hand in hand with the development of agriculture and light industry. The three are interdependent and reinforce each other. Heavy industry cannot develop in isolation, separated from the other two. In the course of national economic development, agricultural production provides grains and raw materials for industry, a large amount of funds for industrial construction and the biggest domestic market for industrial products. The

rate of increase in agricultural production not only affects the tempo of development of light industry but that of heavy industry as well. Rapid growth in agricultural production gives the most important guarantee for providing the 650 million people with a rich variety of consumer goods and gradually raising their living standards. Mao Tse-tung said: "Heavy industry is the core of China's economic construction. This must be affirmed. But, at the same time, full attention must be paid to the development of agriculture and light industry."¹ If there is only one leg, that is, heavy industry, without the other leg, that is, agriculture and light industry, or if the other leg is too short, it will be impossible to develop national economy at top speed. For this reason, particular importance must still be attached to agricultural development during the Second Five-Year Plan period.

The policy of simultaneously developing industry and agriculture is of economic and political importance. It is a question that concerns the worker-peasant alliance and the enlistment of some 500 million peasants to build socialism with greater, quicker, better and more economical results. In China, the peasantry was a powerful force in the period of the revolutionary wars and still is in the period of construction. Only by relying on this great ally and calling into play its initiative and creativeness can the Chinese working class achieve victories in the revolution and construction. If attention is paid to promoting quick industrial production only while the rapid growth of agricultural production is neglected, agriculture will drop further behind and the income and

¹Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, p. 67.

living standards of the peasants will only be raised very slowly. This may not only adversely affect the solidarity between the workers and peasants but may prevent the 500 million peasants from exerting their utmost effort in socialist construction. Any attempt to build socialism by relying on the revolutionary enthusiasm of tens of millions of factory and office workers only without relying on that of hundreds of millions of peasants is utterly inconceivable.

Secondly, the policies concern the simultaneous development of national and local industries, of large, medium-sized and small enterprises and the simultaneous employment of modern and indigenous methods of production under centralized leadership, with over-all planning, proper division of labour and co-ordination. Since socialist economy is based on the public ownership of the means of production, all important economic activities must be carried out under the centralized leadership of the state, with over-all planning, proper division of labour and co-ordination. Centralized leadership, however, must be accompanied by administrative responsibility assumed at different levels so that full rein can be given to the initiative of local authorities. During the period of the First Five-Year Plan, because the foundation of heavy industry was weak, efforts had to be concentrated on the building of a number of large key industries. At that time, China had to depend mainly on the Soviet Union and other fraternal countries for the supply of important machinery and equipment required in economic construction. As her technical personnel had not been trained adequately, China had to rely also on their help in designing and building the major projects. It was necessary, therefore, to carry out the main indus-

trial construction at that time under the direct guidance of the industrial ministries of the Central Government. With the rapid development of the national economy during the period of the First Five-Year Plan, with the speedy progress in heavy industry and the ever increasing numbers of Chinese technical personnel, it was then possible to undertake industrial construction on a larger and more extensive scale. In 1956, basing himself on this situation and having summed up the experience gained in the first few years of the First Five-Year Plan, Mao Tse-tung, in his report on "Ten Sets of Relationships,"¹ put forward the timely policy of simultaneously developing national and local industries. In this connection, he subsequently advanced the policy of simultaneous development of large, medium-sized and small enterprises.

The policies of the simultaneous development of national and local industries and of the simultaneous development of large, medium-sized and small enterprises are, in practice, policies of following the mass line in industrialization. "The fire burns high when every-

¹The Ten Sets of Relationships are:

- (1) between industry and agriculture and between heavy and light industries;
- (2) between coastal industries and inland industries;
- (3) between economic construction and national defence;
- (4) between the state, the co-operatives and the individual;
- (5) between the central and local authorities;
- (6) between the Han people and the national minorities;
- (7) between the Party and non-Party people;
- (8) between revolution and counter-revolution;
- (9) between right and wrong inside and outside the Party, and
- (10) international relations.

See *Second Session of the Eighth National Congress of the Communist Party of China*, Foreign Languages Press, Peking, 1958, pp. 36-37.

body adds wood to it," as a saying goes. It is only when the central and local authorities, the state and the masses, pool their efforts and work together and only when there is a proper division of labour and co-operation between large, medium-sized and small enterprises, that greater, quicker, better and more economical results can be achieved and the tempo of industrial construction quickened. To realize the socialist industrialization of the country, it is necessary for the central authorities to set up a certain number of large enterprises. At the same time, however, local authorities at different levels must also set up industries. Only when the country's 29 provinces, municipalities under the direct jurisdiction of the Central Government, autonomous regions, 160 special regions, autonomous *chou*,¹ leagues and administrative areas and 1,747 counties and autonomous counties, banners and autonomous banners properly and fully develop their initiative under the unified leadership of the central authorities, can a large number and a great variety of factories be built all over the country and industry advance at a quicker rate within a relatively short period.

China is endowed with many favourable conditions for the development of local industries, which have inherited from the past something of a foundation, China has a vast territory, rich natural resources, a very big domestic market and a large population capable of providing an adequate labour force. Providing full use is made of these favourable conditions and there is confidence in and reliance on the masses and a proper division of work and co-ordination between different localities, in a short time local industries will spring up everywhere.

¹An administrative area composing a number of counties.

The simultaneous development of large, medium-sized and small enterprises is closely connected with the simultaneous development of national and local industries. On a whole, large industrial enterprises are mainly directed by central authorities while the medium-sized and small ones are mainly run by local authorities. Large enterprises are the key to the country's industrial development, because they have a big output, use advanced techniques and are able to solve those basic problems which are of decisive importance to the national economy. Without them it would be impossible to build China into a powerful country with a highly-developed modern industry in the quickest possible time. A number of large enterprises have been built in the past few years and more will be built in future. These have both strong and weak points. Generally speaking, they require greater investment and take a longer time to build. In this respect, medium-sized and small enterprises have certain strong points which large enterprises do not possess:

1. They call for less investment and can easily make use of scattered funds;

2. They take less time to build and bring quicker results from investment;

3. They can easily make use of what is available and turn existing local equipment to good account;

4. They are widely distributed and speed up nationwide industrialization by expanding the ranks of the country's technical personnel and raising the economic development of different areas more or less evenly;

5. They produce a rich variety of products and, if need be, can easily start producing new articles or make other changes in production;

6. They are close to sources of raw materials and markets, and can make use of whatever natural resources available; they save transport expenses and can easily combine supply, production and marketing;

7. They are flexible in the use of rural labour power in slack seasons and train an army of non-professional workers.

To better meet the specific requirements of national construction, therefore, as many medium-sized and small enterprises as possible should be set up at the present time. In building certain large enterprises, plans should be made, wherever possible, to build them from small to large scale and stage by stage so that they may be put into operation in the quickest possible time.

The policy of simultaneously employing modern and indigenous methods of production is closely connected with the policy of simultaneously developing large, medium-sized and small enterprises. Since large enterprises are the backbone of socialist industry, they must employ advanced techniques and equipment for the purpose of raising the technical level of the country's national economy. However, China's heavy industry is not yet powerful enough to provide large quantities of machinery and equipment, so that if only those industrial enterprises employing advanced techniques are to be built, it will be impossible to carry out extensive industrial construction in all parts of the country. For the time being, many medium-sized and small industrial enterprises run by local authorities cannot yet adopt advanced techniques; they can only employ ordinary simple ones or even rely on manual labour. For this reason, in order to build large numbers of medium-sized and small enterprises along with the construction of a small number of

large enterprises, it is necessary, technologically, to adopt the policy of simultaneously employing modern and indigenous methods of production. With the rapid development of heavy industry, such indigenous methods of production will give place to modern ones, gradually raising the technical level.

Of the "two legs" mentioned above, national industries, large enterprises and modern methods of production represent one, while local industries, medium-sized and small enterprises, together with indigenous methods of production represent the other. In building socialism, it is necessary to walk on two legs, not on one alone or even on one and a half. In the whole scheme of socialist economic development, national industries, large enterprises and modern methods of production play the leading role. However, local industries, medium-sized and small enterprises also must be considered important, so that they are developed simultaneously. Local, medium-sized and small enterprises together with indigenous methods of production will also play their full part in the high-speed development of socialist economy and ensure greater, quicker, better and more economical results in building socialism. To achieve this end, it is necessary to firmly adhere to the principle of "co-ordinating all the activities of the whole nation as in a chess game," with over-all planning, division of work and co-ordination under the unified leadership of the state. This is to ensure that local industries, medium-sized and small enterprises and indigenous methods of production do not disrupt the unified plan of the state and that they do not adversely affect national industries, large enterprises and modern methods of production in the supply of raw materials, and other matters; and that they do not

adversely affect the development of agricultural production in the distribution of labour power.

The Party's general line for socialist construction is the application and development of its mass line. The Chinese Communist Party is a Marxist-Leninist party and its Central Committee headed by Mao Tse-tung always attaches great importance to the revolutionary creativeness and zeal shown by hundreds of millions of people. In the stormy class struggles in both democratic and socialist revolutions, the Party always placed confidence in the creative power of the masses and believed that under its leadership they would emancipate themselves by their own efforts, and by following this mass line, great victories have been won. It is all the more necessary to rely on the masses and adhere to the mass line now in socialist construction. Experience shows that it is only by firmly putting politics in command, mobilizing the masses to the fullest extent and launching vigorous mass movements that a leap forward can be made in all work.

There are two diametrically opposite attitudes taken towards revolutionary mass movements. There are those who stand aloof from the masses, criticize the mass movements according to their own "blue-prints" and find fault with this and that. They are never for a moment free of worries lest "things should go too far." They even fling mud at mass movements and look upon them with horror as if they were actually disasters. Theirs is the attitude of the Right opportunists. In contrast, there are those who march at the head of the masses, lead the mass movements and identify themselves with the masses, share their destiny, breathe the same air, discuss problems with them, enthusiastically en-

courage their creative activities, and learning lessons from the experiences gained in these activities, push the mass movements step by step to a higher level. This is a Marxist-Leninist attitude. In order to thoroughly carry out the general line for socialist construction and achieve greater, quicker, better and more economical results in building socialism, it is necessary to firmly oppose the lordly attitude of the bourgeoisie adopted by the Right opportunists towards the mass movements and take the only correct Marxist-Leninist attitude. The basic points of the general line clearly show that, in order to achieve greater, quicker, better and more economical results in building socialism, all the positive factors must be mobilized. This means that large-scale mass movements must be launched under centralized leadership. Only by doing this can a vigorous atmosphere in socialist construction prevail instead of a dreary one, and China be built as quickly as possible into a great socialist country with a modern industry, agriculture, science and culture.

The Big Leap in China's Industrial and Agricultural Production. On the basis of the great victorious socialist revolution and socialist construction, from the winter of 1957 China's working people brought about a great, mass-scale upsurge in agricultural and industrial production which quickly affected all other branches of the national economy, as well as the cultural and educational fields, creating in 1958 an all-round big leap forward in every sphere of work.

In 1958, the scale and speed of capital construction were far greater than those in any previous year. Actual

investment in capital construction in that year totalled 26,700 million yuan. Of this total, investments made through the state budget amounted to 21,400 million yuan, a 70 per cent increase compared with 1957. In 1958, construction started on more than 1,000 above-norm¹ industrial and mining projects, of which about 700 were fully or partially completed and commenced production, including 45 major ones built with the help of the Soviet Union.

In the field of industrial production, in 1958 the output of steel (including steel made by indigenous methods) reached 11 million tons, more than double that of the preceding year. If the steel made by indigenous methods is excluded, the output of steel in 1958 amounted to 8 million tons, or 49.5 per cent more than that in 1957. The output of coal reached 270 million tons, also more than double that of 1957. Stimulated by the growth of the iron and steel industry, in 1958 industrial production as a whole grew at a faster rate than in any previous year since liberation. The gross output value of industry in 1958 was 66 per cent higher than in 1957.

In agricultural production, although not a few areas suffered from floods and drought in 1958, China reaped an unprecedentedly rich harvest, one which stood to the credit of the 500 million industrious, brave peasants who, led by the Chinese Communist Party and Mao Tse-tung, built a vast number of water conservancy projects and waged heroic struggles against drought and waterlogging. Grain output reached 500,000 million catties,² or 35 per cent more than in 1957. Output of cotton reached 42

¹ See footnote on page 81.

² 2,000 catties=1 ton.

million *tan*,¹ or 28 per cent over 1957. Such a rate of increase was never known before.

The big leap in industrial and agricultural production gave an impetus to communication and transport services, commerce and other fields of work which also advanced by leaps and bounds.

The big leap in production created favourable conditions for improving the material and cultural life of the people. In 1958 there were, on the average for the year, more than 32 million workers and other employees throughout the country, about 8 million more than in the preceding year. Unemployment, a legacy inherited from the old society, was eliminated. After the people's communes were set up throughout the countryside, their collective welfare facilities were greatly expanded. In 1958, the enrolment in primary schools reached 86 million — 85 per cent of all school-age children attended schools. There were 12 million students in secondary schools, an increase of 70 per cent over the previous year. The enrolment in institutions of higher learning reached 660,000, or over 50 per cent more than in 1957. Cultural and educational work, too, advanced at a rate hitherto unknown.

In 1959, industrial and agricultural production in China continued to leap forward on the basis of the big leap of the previous year. The output of steel (excluding steel produced by indigenous methods) in 1959 reached 13,350,000 tons, an increase of 67 per cent over 1958, while coal output reached 347,800,000 tons, a 29 per cent increase over 1958. Although there were serious natural disasters in 1959, the peasants throughout the country,

¹ 20 *tan* = 1 ton.

organized in the people's communes, were able to wage a hard struggle against floods and drought. The production of grain, cotton and other crops increased considerably compared with 1958. Grain output reached 540,100 million catties, an 8 per cent increase over 1958 and cotton output reached 48.2 million *tan*, a 14.76 per cent increase over 1958.

The Eighth Plenary Session of the Party's Eighth Central Committee called upon the entire nation to fulfil within 1959 the major targets of the Second Five-Year Plan three years ahead of schedule. The Second Five-Year Plan envisages for steel a 1962 target of between 10.5 million and 12 million tons, which has been overfulfilled in 1959; for coal, a target of between 190 million and 210 million tons, one already overfulfilled in 1958; for grain, a target of 500,000 million catties, which was also reached in 1958; and for cotton, a target of 48 million *tan*, which has been fulfilled in 1959. According to the Second Five-Year Plan it was proposed that the gross output value of industry would be doubled in five years and that of agriculture would be increased by 35 per cent. These two targets also have been overfulfilled in 1959. That the major targets as proposed by the Second Five-Year Plan have been fulfilled in two years shows that China's industrial and agricultural production is in the throes of an unprecedented big leap.

In 1958 and 1959, industrial and agricultural production advanced at a much faster rate than in the period of the First Five-Year Plan. The aggregate increase in the output of steel in the five years 1953-57 was 4 million tons. But in 1958 and 1959 its aggregate increase was 8 million tons. The aggregate increase in the output of coal in 1953-57 was 60.7 million tons, but in 1958-59 it

was 217,800,000 tons. The total increase in the output of grain was 61,200 million catties in the five years 1953-57; in 1958 alone the increase was 130,000 million catties. The total increase in the output of cotton was 6.73 million *tan* in 1953-57 while in 1958 the increase was 9.20 million *tan*. Surely this constitutes a big leap of unprecedented dimensions.

A comparison between the rate of increase in China's industrial and agricultural production in 1958 and 1959 and that of the capitalist countries furnishes eloquent proof that China's big leap is unprecedented in the history of the world. Take steel output for example. It took the United States five years to increase its steel output from over 5 million to 7.2 million tons and nine years to increase it from over 5 million to over 13 million tons.¹ It took Britain 10 years to increase its steel output from over 5 million to nearly 8 million tons and 32 years to increase it from over 5 million to almost 12 million tons. In coal output, it took the United States 14 years to increase it from over 130 million to over 270 million tons and 17 years to increase it from over 130 million to over 350 million tons. It took Britain 32 years to increase its coal output from over 130 million to over 270 million tons, and so far its coal output has not hit the 300-million-ton mark yet. In the output of grain, the annual increase in the United States averaged 11,800 million catties from 1950 to 1958. At this rate it would take the United States 11 years to achieve an increase of 130,000 million catties of grain as China did in the one year of 1958. In cotton output the annual increase in

¹Because there are great ups and downs in the steel output of the United States every year, it is not possible to find figures wholly comparable to China's in 1957, 1958 and 1959.

the United States was, on the average, 875,000 *tan* in the eight years 1950-1958, at this rate it would take the United States more than 10 years to increase 9.2 million *tan* as China did in the year of 1958. Since Britain does not grow cotton, it need not be mentioned here, and the grain is almost negligible also.

The high rate of increase in China's industrial and agricultural production is of great political significance. Internally, only by developing our industrial and agricultural production at top speed can the Chinese people quickly raise their low standard of living. It has been said that such a fast rate of construction makes people feel terribly tense and it is better to go slowly. But the working people of China prefer this to the kind of tension created by continual anxiety about food and clothing. Such as they have had for centuries. "Hard work for a few years, happiness for a thousand!" — this is the sound slogan they raised during the big leap forward. Externally, the fast rate at which industrial and agricultural production is developing in China will greatly strengthen the whole socialist camp, while the peoples in Asia, Africa and Latin America, who have just freed, or are freeing themselves from colonial rule, will draw confidence and strength in their struggle for a better life from China's experience in her big leap. Herein lies the reason why the imperialists so thoroughly hate and are so afraid of acknowledging the big leap forward made by China.

How was it that China achieved such great success in production and construction during these two years? First of all, it was because the socialist revolution on the economic front had been practically completed in the eight preceding years, decisive victories in the socialist

revolution on the political and ideological fronts had been achieved and the productive forces had been released by a new social system. Secondly, with the completion of the First Five-Year Plan, a number of large, modern key industries had been built and personnel capable of mastering modern techniques had been trained, so that a preliminary groundwork was laid for the country's socialist industrialization. The most important reason, however, was that the Chinese Communist Party which correctly understood the objective economic laws and took into full account the role of the subjective activity of the people worked out the general line of "going all out, aiming high and achieving greater, quicker, better and more economical results in building socialism," together with the whole set of policies for construction known as "walking on two legs." This general line of the Party armed the 650 million people with understanding and so became a great material force which led to a series of brilliant achievements on the industrial and agricultural fronts. The assistance given by the Soviet Union and other fraternal countries also played an important role in enabling China to achieve such great success in her economic construction.

It goes without saying that the Chinese people will never rest content with what has been achieved in the past ten years. They want to continue the forward leap and build China into a modern, powerful socialist country. In the field of industry, the Party's Eighth Central Committee in its Eighth Plenary Session called upon the entire nation to realize basically the slogan "catch up with Britain in the output of major industrial products within 15 years" which had been brought forward earlier, within about ten years (starting from 1958). The peak

annual output of steel (1957) in Britain was 22 million tons; coal (1913), 290 million tons; electricity (1958), 112,000 million kilowatt-hours (China could generate only 39,000 million kilowatt-hours in 1959). To catch up with and surpass Britain, strenuous efforts have still to be made. Since China's population is more than ten times that of Britain, to achieve this aim is only the first step in industrialization. Continuous efforts must be exerted to catch up with and outstrip the most advanced of all capitalist countries. In 1958, China stood seventh in the world in output of steel, third in coal and eleventh in electric power. It will probably take 15 or 20 years or even longer to build China into a powerful country with a highly-developed modern industry.

The Party's Eighth Central Committee in its Eighth Plenary Session also called upon the entire nation to fulfil, far ahead of schedule, the targets set in the National Programme for Agricultural Development. According to this programme, by 1967 the average per-mou¹ yield of grain should reach 400, 500 and 800 catties and that of ginned cotton, 60, 80 and 100 catties, in the three different areas into which the country is divided according to specific conditions. Although many counties and cities in the country reached or surpassed these targets in 1958, it still calls for strenuous efforts to attain them far ahead of schedule in the country as a whole. Even when these targets are reached, it will still not be possible for the country's agricultural products to fully meet the needs of light industry and the requirements of the entire population. The Chinese people, therefore, have to redouble their efforts and strive, step by step, to catch up with

¹ 1 mou=1/15 hectare or 0.1647 acre.

the advanced capitalist countries in the per capita output of grain, meat, cloth and other daily necessities through the mechanization and electrification of agriculture.

In the sphere of science and culture, in 1957 the Central Committee of the Party put forward the 12-year plan for scientific development. According to this, China should catch up with the most advanced world standards in science and technology as quickly as possible. The Chinese people will fulfil, ahead of schedule, this glorious task on the basis of the rapid growth of industry and agriculture and through the concerted efforts of the working people, scientists, engineers and technicians.

The People's Commune Movement in Rural Areas. The year 1958 saw an all-round big leap in China's industrial and agricultural production. In the summer of that year, the people's commune, a new social organization, as fresh as the morning sun, appeared in China's countryside. Within a few months, in response to the enthusiastic demands of the peasants all the 740,000 agricultural producers' co-operatives in the country were merged into over 26,000 people's communes. Over 120 million peasant households, or more than 99 per cent of the total number of peasant households of various nationalities in China, joined the people's communes. The rapid development of this movement was not fortuitous. As was pointed out in the Resolution on Some Questions Concerning the People's Communes adopted by the Eighth Central Committee of the Chinese Communist Party at its Sixth Plenary Session on December 10, 1958, "It is the outcome of the economic and political development of our country, the outcome of the socialist rectification campaign conducted by the Party, of the Party's

general line for socialist construction and the great leap forward of socialist construction in 1958."¹

In 1956 agricultural producers' co-operatives were established all over the country; over 120 million households of small peasants working on their own were organized into 740,000 co-operatives. This greatly helped to solve the problems arising from the scattered and backward conditions which were inherent in small-scale farming and liberated the productive forces. When agricultural co-operation was completed, the foundation of agricultural production in China was built on socialist collective ownership. The means of production and the produce became common properties of all the co-operative members and the bulk of the products was distributed among the members according to the principle "to each according to his work." This system raised morale, encouraged the peasants' enthusiasm for production and hastened the development of agriculture. There is no doubt that the big leap in production of 1958 would have been impossible without agricultural co-operation.

In that year, after the nationwide rectification campaign, encouraged by the Party's general line for socialist construction, the Chinese people raised their socialist consciousness and revolutionary enthusiasm to new heights, and brought about an unprecedented advance in industrial and agricultural production both in scale and in pace. The large-scale irrigation projects called for the co-ordination of several co-operatives, townships and even larger areas. Other agricultural and industrial construction projects in the countryside also required wider

¹*Sixth Plenary Session of the Eighth Central Committee of the Communist Party of China*, Foreign Languages Press, Peking, 1958, pp. 12-13.

co-operation and demanded that labour power, materials and funds be allocated on a larger scale than previously, that more labour power be liberated from household drudgery and turned to production and construction, and that the basic organs of state power and the economic units be combined to strengthen centralized leadership. Under the circumstances, both the organizational form and operational scale of the agricultural co-operatives were found to be inadequate for complete adaptation to the need of the developing productive forces. That was why, prior to the emergence of the people's communes, the peasants in various localities had tried out many ways and means of improving the organization and work system of the co-operatives. Many co-operatives merged to form bigger ones, expanding their spheres of operation, and began to set up their own industries. In many areas the agricultural producers' co-operatives were merged with those of the credit, handicrafts and supply and marketing. To meet the need of the big leap in agricultural production, many agricultural co-operatives established large numbers of community dining-rooms, nurseries and kindergartens, etc. A few of these co-operatives had actually been merged and reorganized in the form of the present people's communes. This new social organization was entirely a creation of the masses. The Central Committee of the Party and Mao Tse-tung gave it ardent support and chose for its name "people's commune," which best expressed its content and was widely popular among the people. In August 1958, the Political Bureau of the Central Committee of the Chinese Communist Party at its enlarged session adopted the Resolution on the Establishment of People's Communes in the Rural Areas. The resolution analysed the historical

background from which the people's communes had emerged, foresaw their inevitable development and decided upon the Party's policy of giving ardent support and active guidance to the movement for their establishment. The economic character and future development of the communes was also scientifically defined in the resolution. It was pointed out clearly that the commune was socialist in nature, and its means of production were still under collective ownership; that the transition from collective ownership to ownership by the whole people was a process, the completion of which might take a certain number of years; and that even with the completion of this transition, for a considerable period of time, the commune would remain socialist in character. At the same time, the resolution made it clear that the commune was the best form of organization through which to realize the transition from collective ownership to ownership by the whole people, and from socialism to communism. Careful and sound steps in developing the communes were enumerated which put particular emphasis on the peasants' voluntary participation in these new organizations so as to prevent any form of compulsion. It stated that experiments should first be made in some selected areas and the experience gained should then be popularized gradually. After the resolution was made public, the broad masses of working people were overjoyed and a vigorous movement to organize communes swept over the whole country. In less than two months' time, the people's communes were set up throughout the rural areas of the country. This was an epoch-making event of great significance in Chinese history.

By December 1958, communes had been established all over the country. The Sixth Plenary Session of the

Party's Eighth Central Committee, in its Resolution on Some Questions Concerning the People's Communes, systematically summed up experience gained in the development of the communes and provided solutions, both in theory and in policy, to some of the fundamental problems which had arisen. In the spring of 1959, after a check-up, improvements were made in all communes in the country according to this resolution and subsequent directives of the Party's Central Committee, since when there has been a sound and vigorous development. The changes that have resulted in the rural areas in both economic relations and social life have opened up a broad vista for a continuing leap forward in industrial and agricultural production, particularly the latter.

The transformation of the agricultural producers' co-operatives into the people's communes involved no change in the collective ownership of the means of production. The difference is that collective ownership in the communes has become more advanced and expanded, so that it now contains certain elements of ownership by the whole people.

At present, the level of development of the productive forces determines that the communes still need to be based on the collective ownership of the means of production. As agriculture has not yet been mechanized and the bulk of the work still has to be done by hand, it is impossible to make an immediate transition from collective ownership to ownership by the whole people. Within the communes today, ownership at the commune level is still only partial, ownership at the production brigade level constitutes the basic one and a small part of the ownership is also vested in the production team. However, the trend is to develop towards ownership by

the whole commune and collective ownership will also be steadily developed into ownership by the whole people. However, as the Resolution of the Party's Eighth Central Committee at its Sixth Plenary Session points out:

. . . Collective ownership still plays a positive role today in developing production in the people's communes. How soon the transition from collective ownership to ownership by the whole people will be effected will be determined by the objective factors—the level of development of production and the level of the people's political understanding—and not by mere wishful thinking that it can be done at any time we want it. Thus this transition will be realized, by stages and by groups, on a national scale only after a considerable time.¹

Because the communes' means of production are collectively owned, their products are also. In state enterprises, the state, representing the whole people, can directly make a unified and rational distribution of their means of production and products according to the needs of the entire national economy. But this cannot be done in the people's communes at present. Except for a part of the commune's products which are turned over to the state in the form of agricultural tax, the state can procure them only in return for industrial products according to the principle of exchange at equal value. Within a commune, under the system of unified leadership, management and business accounting at different levels, any exchange of products between the commune and the production brigades and between different brigades is done

¹*Ibid.*, p. 21.

according to the same principle of exchanges of equal value, and allotment without due compensation is impermissible.

With regard to collective ownership, the commune is much wider in scale and higher in level than the agricultural producers' co-operative. The characteristics of the commune are: first, it is bigger and second, it is more socialist in nature. This is mainly demonstrated by the fact that it operates on a much bigger scale than the agricultural producers' co-operative. It has initiated commune-wide irrigation and water conservancy projects and also economic undertakings such as factories, mines, farm machinery and water pump stations, livestock farms, orchards, forests, fish-breeding farms, etc. In addition to the earnings of these enterprises, the commune can accumulate funds by appropriating a certain portion of the yearly income of its production brigades. It makes unified plans for production and distribution, puts production and construction under unified direction and management and organizes the necessary large-scale co-ordination of work. Also it has the power to rationally readjust standards of remuneration for labour when necessary. Therefore, in the ownership system of the people's commune, beginnings of ownership by the whole people have appeared.

However, it is only the basic means of production in the communes that are commonly owned, while scattered trees around the houses, small farm tools, small instruments, small domestic animals and poultry are retained by the individuals or families, and privately owned. The members can continue to engage in some domestic side-line occupations on condition that these do not hamper their participation in collective labour. They can cul-

tivate their own small plots for raising fodder, gardens or other crops and the means of livelihood which belong to families or individuals such as houses, clothes, bedding and furniture, etc. will always remain their own private possessions.

After deductions for production costs and payment of taxes to the state, the products of the commune are, by and large, divided into two portions: one for accumulation and common expenditures (including expenses for common welfare, cultural and educational undertakings), and the other for the personal expenses of members, and this second portion is generally distributed according to the principle "to each according to his work."

After the establishment of the communes, a distribution system which combined the wage system with that of free supply was introduced on a trial basis. This is a new method of socialist distribution initiated by the people's communes in this country. At the present time, it represents what the broad mass of members eagerly demand. Such a system contains the first shoots of the communist principle "to each according to his needs." But essentially it is still socialist, being based on the principle "from each according to his ability and to each according to his work."

In applying the principle "to each according to his work" the communes differ from the state enterprises which are owned by the whole people. This is because the means of production and the products of the communes are collectively owned by the members, and distribution is made, not on a national scale (like the enforcement of uniform nationwide wage rates), but within each commune. As the communes differ from one another in the size of their income, it is inevitable

that the rate of remuneration for the work of members varies to a certain degree. Even within a commune, remuneration will be somewhat different between different production brigades because of the enforcement of the business accounting system at different levels.

The wage system that has been introduced in the communes on a trial basis is also not entirely the same as that in the state enterprises at present. Today, the level of productive forces in agriculture is still very low; many and various kinds of work have to be done mainly by hand. The difference in technical levels among the commune members is not as distinctive as it is among the industrial workers. Under collective ownership, the production and income of different communes vary, some earning more, some less. Natural conditions must also be taken into account—a good harvest one year, a crop failure the next. For these reasons, in general, it is not entirely feasible for the communes to adopt the wage system enforced in the state factories. Conditions make it still necessary to absorb some experiences gained by the advanced agricultural producers' co-operatives. A transitional measure, therefore, has been adopted by combining the wage system with the system of "calculating workdays on the basis of output" which functioned well in the past. Implementation of this measure embodies the socialist principle "the more one works, the more one earns," thus encouraging the enthusiasm for production among the members and production brigades. When the productive forces are developed, the economic foundation of the communes gradually consolidated and the accumulation increased, the wage system may then take an advanced form.

The free supply system as practised at present in the communes usually covers only grain or prepared food, and the standards of such supply vary with different areas and communes. Such a system is the first shoot of the communist principle "to each according to his needs," and, at the present time, it is the most reliable form of social insurance for the peasants. Those oversized peasant families short of labour power no longer have to worry about the problem of food. Their initiative in production is encouraged and unity among the peasants strengthened. However, due to the low level of production in agriculture, it is not yet feasible to introduce a free supply system that covers too large a part of the consumer goods distributed. For a given period of time, the wage portion based on work should still constitute the main part of remuneration. The standards of free supply should, to a certain extent, also vary according to the amount of work done. By doing so, the principle "to each according to his work" may be realized more fully, and the enthusiasm for production among the peasants raised much higher.

The people's commune is an entity which combines the township administration with that of the commune and comprises industry (the worker), agriculture (the peasant), exchange (the trader), culture and education (the student) and military affairs (the militiaman). In China, this is the basic unit of socialist social structure. Although the people's commune and the advanced agricultural producers' co-operative are both socialist in character, the two are nevertheless different in many respects. First, comparatively speaking, the advanced agricultural producers' co-operative was a small collective body which generally comprised a few hundred households, while

the commune is a much bigger one, composed of anything from a few thousand up to ten thousand households. Secondly, the advanced agricultural co-operative only engaged in farming (including some side-occupations) and the limitation of its financial and labour resources, made it impossible to develop a large-scale diversified economy. The commune has a larger organization and broader operational scale. It can mobilize labour power in the countryside more fully and deploy it more rationally than the co-operative. Its sphere of operation is no longer limited to agricultural production. It also undertakes varied activities including forestry, animal husbandry, fishery and side-occupations; and providing that it does not adversely affect agricultural production, the commune carries out the simultaneous development of industry, and engages in trade and transportation, etc. In short, the commune takes up a great variety of economic activities in a comprehensive manner. Thirdly, the advanced agricultural producers' co-operative was merely an economic organization while the commune is a unified organization with political, economic, military and cultural functions. Fourthly, the advanced agricultural producers' co-operative functioned only as an organizer of collective production while the commune, is an organizer of collective life as well.

In response to the pressing demand of the broad masses, the communes have established a large number of community dining-rooms, nurseries, kindergartens, "homes of respect for the aged" and other collective welfare institutions, and so liberated a considerable number of women from household drudgery. Women who for the past thousands of years have been imprisoned in the

kitchens now participate in social labour and wear broad smiles on their faces. Engels said in 1845:

It can be boldly assumed that with the communal preparation and serving of food two-thirds of the labour power now employed in this work can be saved and that the other one-third will be able to do their work better and more attentively than is now the case.¹

This ideal as put forward by Engels has gradually become a reality in China's rural communes.

It is precisely because of such features of the commune that this new-born social organization is able to demonstrate its immense vitality and incomparable superiority in less than a year after its establishment throughout the rural areas of the country. Immediately after their nationwide establishment in 1958, they were confronted with the reaping of an unprecedented bumper autumn harvest and the mass movement to produce iron and steel. Although in many places there was some shortage of manpower during harvesting with the result that the crops were gathered in a rather hurried manner, yet an unprecedented harvest of grain and cotton was brought in. On top of this, millions of tons of both iron and steel were produced. At the same time, a gigantic task was fulfilled in short distance transportation of both agricultural produce and the materials needed for iron and steel production. In 1959, the first year after the people's communes were set up, under very bad natural conditions, a summer harvest bigger than that of 1958 was reaped. Now an all-round development of agriculture, forestry, animal husbandry, side-occupations and

¹Translation from the German edition of *Marx-Engels Works*, Dietz Verlag, Berlin, 1957, Vol. II, p. 546.

fishery is being carried out by the communes. Hundreds of thousands of small factories have sprung up in China's countryside. Capital construction in water conservancy and irrigation projects has made great headway, and the life of the peasants is getting better every day. Therefore, it has become a popular saying among the broad peasant masses that "the people's commune is good."

Of course, a mass movement on such a gigantic scale and organized at such lightning speed as the formation of the people's communes, it was inevitable that while there were great achievements, a few shortcomings also occurred. In fact, what is surprising is not that some shortcomings occurred, but that the shortcomings were so few compared with the achievements and that they have been overcome so quickly. The Right opportunists are blind to the superiority of the communes and to the revolutionary fervour of hundreds of millions of peasants. They concentrate their attention only on the faults which were overcome long ago and which were only local and temporary in nature. They "assail at one point without giving due consideration to all the achievements," echoing the slanders raised by the internal and external enemies by saying: "It was too early and too hasty to set up the people's communes! The communes are in a mess!" Such a lordly attitude towards the mass movement held by those who isolate themselves from the masses indicates that they have taken up a position in opposition to the people and to the great socialist revolution and socialist construction.

The people's commune at its present stage is a powerful weapon for propelling socialist construction forward, and in the future it will be the best organizational form

for completing the transition from socialism to communism.

The Resolution on Some Questions Concerning the People's Commune adopted by the Eighth Central Committee of the Chinese Communist Party at its Sixth Plenary Session points out:

Marxist-Leninist theory and the initial experience of the people's communes in our country enable us to foresee now that the people's communes will quicken the tempo of our socialist construction and constitute the best form for realizing in our country, the following two transitions:

Firstly, the transition from collective ownership to ownership by the whole people in the countryside; and
Secondly, the transition from socialist to communist society.¹

These predictions will be substantiated by living facts as time goes by.

Of course, it will take a considerably long time to complete the two transitions mentioned above. In order to realize this beautiful ideal, arduous efforts are necessary. First of all, China must be built into a great socialist country with a modern industry, agriculture, science and culture. The resolution also stated:

Both the transition from socialist collective ownership to socialist ownership by the whole people and the transition from socialism to communism must depend on a certain level of development of the productive forces. Production relations must be suited to the

¹*Sixth Plenary Session of the Eighth Central Committee of the Communist Party of China, op. cit., p. 17.*

nature of the productive forces and only when the productive forces develop to a certain stage will certain changes be brought about in production relations — this is a fundamental principle of Marxism.¹

We are advocates of the Marxist-Leninist theory of uninterrupted revolution; we hold that no "Great Wall" can be allowed to exist between collective ownership and ownership by the whole people, between socialism and communism; we must not mark time at the collective ownership and socialist stage. At the same time we are advocates of the Marxist-Leninist theory of the development of revolution by stages, we hold that when the objective conditions are not yet mature, collective ownership should remain the foundation of the communes. Even after the communes have made their transition from collective ownership to ownership by the whole people, if the productive forces are not yet developed sufficiently to realize the communist principle of "to each according to his needs," then, for a definite period of time, the nature of our society will still be socialist. As the Resolution of the Political Bureau of the Central Committee of the Chinese Communist Party on the Establishment of the People's Communes in the Rural Areas, adopted on August 29, 1958, states:

Some years after that the social product will become very abundant; the communist consciousness and morality of the entire people will be elevated to a much higher degree; universal education will be achieved and the level raised; the differences between worker and peasant, between town and country, between mental and manual labour — the legacies of the

¹*Ibid.*, pp. 23-24.

old society that have inevitably been carried over into the socialist period—and the remnants of unequal bourgeois rights which are the reflection of these differences will gradually vanish; and the function of the state will be limited to protecting the country from external aggression; and it will play no role internally. At that time Chinese society will enter the era of communism in which the principle of “from each according to his ability and to each according to his needs” will be practised.¹

Under the correct leadership of the Central Committee of the Chinese Communist Party and Mao Tse-tung and with the guidance of the glorious banners of the general line, the big leap forward; the people's commune, and with the selfless assistance and support of the Soviet Union and other socialist countries and the working people of the whole world, the 650 million Chinese people have the determination and energy to build China with the utmost speed into a great socialist country with a highly developed modern industry, agriculture, science and culture, and on that basis to achieve the gradual transition from socialism to communism.

¹*Ibid.*, pp. 25-26.

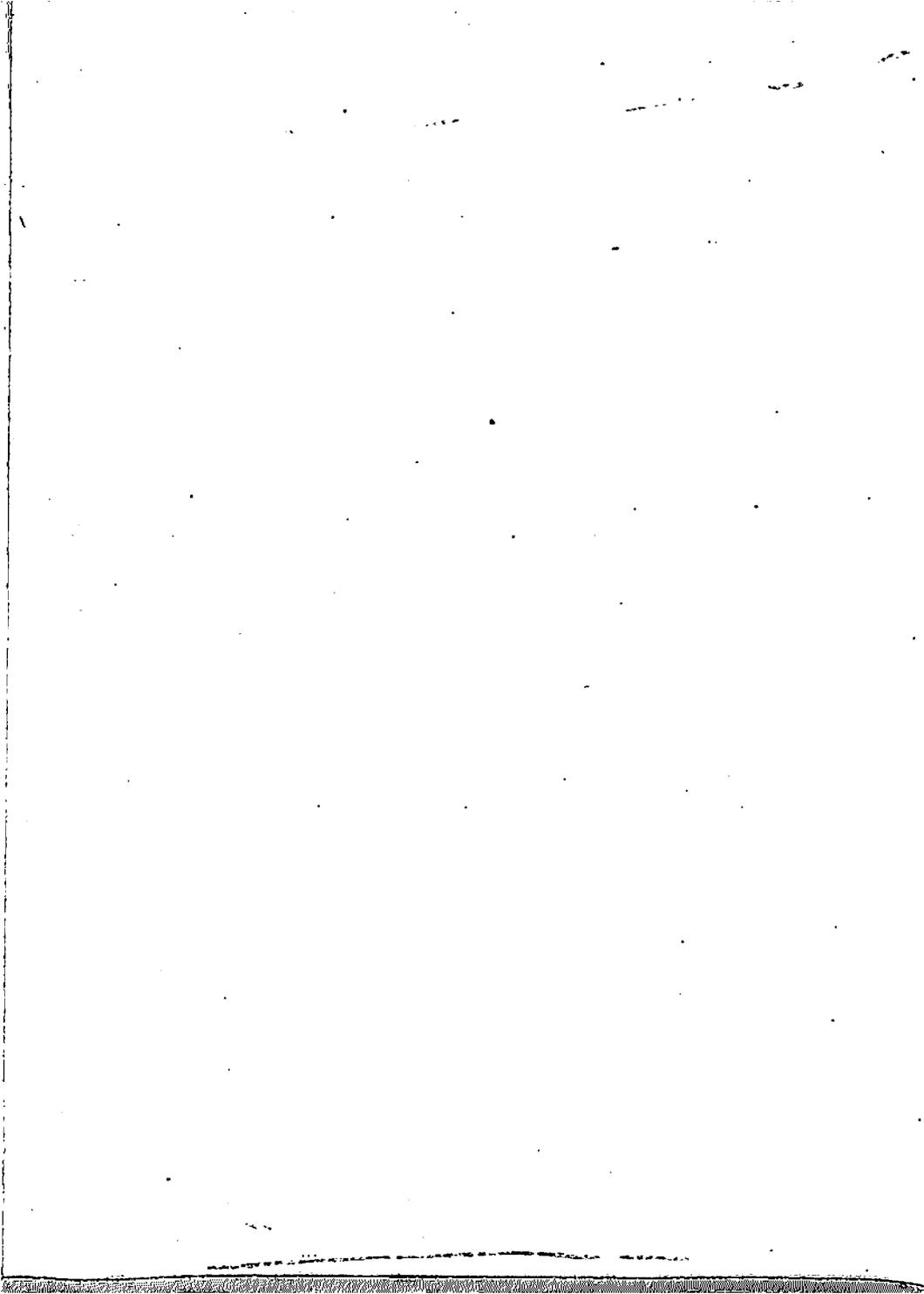
中國國民經濟的社会主义改造

薛暮琪、苏显、林子力著

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