

CHINA KNOWLEDGE SERIES

THE SOCIALIST
TRANSFORMATION OF
CAPITALIST INDUSTRY AND
COMMERCE IN CHINA

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Chapter One

The Founding of the Chinese People's Republic and the Beginning of the Transition to Socialism

1. THE TWO STAGES OF THE CHINESE REVOLUTION

Under the leadership of the Chinese Communist Party the revolutionary movement of the Chinese people, which aimed at overthrowing the reactionary rule of imperialism, feudalism and bureaucrat-capitalism, eventually won a great victory after having waged a protracted, complex and persistent struggle. On October 1, 1949 the People's Republic of China was founded. Since then the Chinese people, who number a quarter of the world's total population, have stood up, gained independence and become the masters of their own destiny. The time when imperialism ran roughshod over China is gone for ever.

Prior to this, for several thousands of years, China had been a feudal country. From the middle of the 19th century onwards when the imperialist powers invaded China successively, it was reduced to the status of a semi-colonial and semi-feudal country. In 1840 the British imperialists launched the aggressive Opium War. This was the beginning of the penetration of foreign capitalism into China. Other imperialist countries followed with one aggressive war after another. There

was the war waged against China by the Anglo-French forces in 1857, the Sino-French War of 1884, the Sino-Japanese War of 1894, the war waged against China by the joint forces of eight imperialist countries in 1900, and the Russo-Japanese War of 1905 fought by the Japanese and Russian imperialists in a scramble for Chinese territory. It was because of the corruption and incompetence of the feudal ruling class in old China that imperialism succeeded in making inroads into this country. Through a series of aggressive wars the imperialist powers first compelled China to sign a number of unequal treaties, extorted huge sums for indemnities, carved off some territory, forced the opening of many treaty ports and obtained many special rights. Taking advantage of these privileges, the imperialist countries continued their economic, political, as well as cultural aggression. In the economic sphere they made China a market for the mass dumping of their goods and a place for the cheap purchase of raw materials. Then, going a step further, they exported to China huge amounts of their surplus capital. They set up factories, exploited mines, built railways and established shipping services. Making direct use of cheap labour power and raw materials, they pilfered amazing profits from China. Through giving loans to the various reactionary governments and opening banks they controlled China's finance and banking. Thus, for a hundred years imperialism dominated China, overshadowing its politics and economy.

The onslaught of imperialism led to the breaking down of the feudal system to a certain extent. But to attain their aim of enslaving the Chinese people, the imperialists needed a reactionary, corrupt force within China to act as their servant and stool-pigeon in controlling the

Chinese people. For their part the feudal forces of China also needed a back-stage director and patron to bolster their waning power. The imperialist and feudal forces, therefore, collaborated with each other. 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

China was thus changed from an independent feudal society into one which was semi-colonial and semi-feudal.

Under such conditions the degree of enslavement, exploitation and oppression suffered by the broad masses of working people was terrible. Industrial workers generally worked longer than a 12-hour day; in some cases they worked for as long as 16 or 18 hours. Their wages were so low that they could hardly maintain a living of the poorest kind. The employment of women and child labour was common. Their working hours were the same as those of men but they received still lower wages. Workers laboured under shocking conditions. Politically, they had no democratic rights whatsoever. They were liable to be arrested and shot by the reactionary rulers at any moment.

In the countryside the landlords and rich peasants, who numbered only 8 per cent of the total rural population, owned more than 70 per cent of the arable land, while the peasants, who numbered over 90 per cent, owned less

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

than 30 per cent of the land. A large number of people had neither land nor any other means of livelihood. To rent a piece of land from a landlord a peasant had to hand over approximately half of its produce to the owner. Still the landlords were not satisfied. They ruthlessly squeezed the peasants further by lending them money at usurious rates of interest. The peasants who laboured all the year round could not even supply themselves with sufficient food. Many of them were weighed down with debt to the landlords which they could never repay in their lifetime. Diseases were rampant in the countryside and the death rate was high. Under such conditions technical reforms and the growth of the productive forces were naturally out of the question. Harvests were poor. The peasants had no power to cope with drought, floods and pests. As a result many went bankrupt, became wanderers, or died of their tribulations.

The imperialists were unwilling to let China have its own industry. Because they oppressed and crowded out national industries, national capitalism was never able to develop in a normal way, and China's economic foundation was a flimsy affair. In industry, old China was about 100 or 150 years behind the well-developed capitalist countries. During the last ten or more years of reactionary rule, national industries, which had never been strong, were further weakened and seriously damaged while many national industrial and commercial enterprises closed down. On the eve of the victory of the people's revolution in 1949 national industry and commerce were on the verge of collapse.

As Mao Tse-tung has said, the legacy left to the Chinese people by old China was "poverty and blankness." By "poverty" he meant economic backwardness and by

“blankness,” cultural backwardness. To free their country from such conditions and to build up an independent, prosperous new China, the Chinese people, during the last hundred years, persistently carried out anti-imperialist revolutionary struggles. However, not until the success of the Russian October Revolution did they find a correct way of emancipating themselves. In 1921 the Chinese Communist Party was founded. A party of the working class and armed with the theory of Marxism-Leninism, it began to take up the responsibility of leading the Chinese revolution, which from that time onwards entered a new stage of historical development.

The victory of the October Revolution showed the oppressed Chinese people the only road to complete emancipation, i.e., the road of socialist revolution. From its very beginning the Chinese Communist Party considered China's revolution under its leadership a continuation of the Russian October Revolution. According to actual conditions in China the prime task of China's revolution was to end imperialist and feudal oppression. In other words, it had to first emancipate the Chinese people from oppression by imperialism and feudalism. Such a revolution was democratic in character. This means that China's revolution had to be carried out in two stages: firstly, by a democratic revolution against imperialist and feudal oppression and secondly, by a socialist revolution. In 1939, in his book *The Chinese Revolution and the Chinese Communist Party* Mao Tse-tung said:

. . . 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 a 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

This important exposition defined the revolutionary task of the Chinese people in their struggle against imperialism and also pointed out the socialist future of the Chinese revolution. It was precisely in accordance with the directions given by Mao Tse-tung that the Chinese revolution developed.

The founding of the Chinese People's Republic marked the victorious completion of the democratic revolution. The Chinese people set up a people's democratic state power which was headed by the working class and based on the worker-peasant alliance. China's productive forces were liberated from the fetters of comprador and feudal production relations. Following this, China entered the stage of socialist revolution and the transition to socialism began.

2. THE GENERAL TASK OF THE STATE DURING THE PERIOD OF TRANSITION

How can the transition to socialism be realized? In accordance with the aim of socialism and the actual con-

¹ *Ibid.*, p. 101.

ditions in China the Chinese Communist Party brought before the people of the whole country the general task of the state during the transition period. Mao Tse-tung said:

The time from the founding of the Chinese People's Republic to the practical completion of socialist transformation is a transitional period. The general line and main tasks in the period are, over a relatively long period, to realize step by step the socialist industrialization of the country and the state's socialist transformation of agriculture, handicrafts, and capitalist industry and commerce. This general line is a beacon illuminating all fields of our work, without which we are liable to commit rightist or leftist mistakes.

The economic and industrial foundation of old China was exceedingly backward and very weak. When the Chinese People's Republic was founded in 1949 the value of machine-made industrial products was only 17 per cent of the combined gross output value of industry and agriculture. At the same time, the industry was colonial and semi-colonial in nature, there being neither any real machine-building industry nor any modern industry for national defence. It consisted mainly of certain kinds of light industry. Although there was a semblance of heavy industry, it amounted to no more than repair workshops opened by the imperialists in China, mines and factories supplying raw materials or semi-finished products to imperialist countries. Thus China could not become independent economically and, as a weak country with a poverty-stricken people, suffered from every kind of imperialist aggression and oppression during the last one hundred years or more. After the Chinese people

had won the victory in the first stage of the revolution, they had to alter the economic situation, and change China from a poor, backward agricultural country to a wealthy, advanced, industrial, strong socialist one. Otherwise it would be impossible to develop and transform the national economy, raise the living standards of the people and ensure national defence and security. Mao Tse-tung wrote in 1945, "Without industry there can be no solid national defence, no people's welfare and no national prosperity and power."¹ To realize the socialist industrialization of their country was, therefore, the main task of the Chinese people.

As the first stage of China's revolution was a democratic one, led by the working class and directed against imperialism and feudalism, it was inevitable that a non-socialist economy should exist side by side with the socialist economy in the new society formed after liberation. During this transition period there were two non-socialist sectors of the economy in China. One was the individual sector, i.e., individual farming, handicrafts, and other privately-owned enterprises based on individual labour. The other was the capitalist sector, i.e., national capitalist industry and commerce. In the early years of the People's Republic these non-socialist sectors constituted a large proportion of the entire national economy. In 1949, for instance, state-owned socialist industry accounted for about 34 per cent of the gross output value of the country's whole industry, while private industry accounted for about 63 per cent, the other 3 per cent belonging to joint state-private industry and that run by the co-operatives. To realize socialist industriali-

¹ Mao Tse-tung, *Selected Works*, *op. cit.*, Vol. IV, p. 297.

zation, therefore, socialist industry had to be developed to the fullest extent while the gradual transformation of non-socialist private industry into socialist was accomplished.

The work of developing socialist industry and transforming the non-socialist economic sectors was interconnected and could not be separated. They were two aspects of one proposition. First, socialist industry was the material basis and leading force in carrying out socialist transformation of the entire national economy. It was only by continuously developing a powerful socialist industry that we could ensure the increase of socialist elements in all branches of the economy; complete the socialist transformation of capitalist industry and commerce; reform individual farming and handicrafts through using new techniques; and rapidly expand production, accumulate capital, train personnel for socialist construction, form socialist habits, and so create the economic, cultural, and political prerequisites for ensuring the complete victory of socialism. Secondly, the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce would also accelerate the country's socialist industrialization; and supply grain, raw materials and daily necessities for the people. If, on the contrary, we did not carry out the socialist transformation of these, but allowed them to develop in their own way, they would be unable to give satisfactory and effective help to the development of socialist industry and would inevitably cause various contradictions to arise in our work of socialist industrialization. Consequently the final goal of socialist industrialization would not be achieved. Let us take a bird for comparison. The development of socialist industry may be compared to

the body of the bird while the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce are its two wings. On our way to socialism, of course, we could dispense neither with the body, nor with the wings.

3. THE SOCIALIST TRANSFORMATION OF CAPITALIST INDUSTRY AND COMMERCE, AN IMPORTANT TASK DURING THE TRANSITION PERIOD

The task of socialist transformation during the transition period is to gradually transform all forms of private ownership of the means of production into socialist ownership, that is ownership by the whole people and collective ownership by the working people, thus making these the sole economic foundation of our state and society. From this it can be seen that the socialist transformation of capitalist industry and commerce is an important task of the socialist revolution. To carry this out means to change capitalist private ownership based on the exploitation of the working class into socialist ownership by the whole people. In other words, it is to replace capitalist relations of production with socialist ones.

The reason why the socialist transformation of capitalist industry and commerce had to be carried out was because irreconcilable contradictions existed in the capitalist economy itself and also between capitalism and socialism. If we had not carried out such socialist transformation and changed the capitalist relations of production, we would have been unable to resolve these contradictions. As a result, we would have been unable to turn this section of the social productive forces to full

account to meet the needs of the people and the country's economic construction. Moreover, the development of socialist economy would have been impeded and it would have been impossible for us to have attained our aim of building a socialist society.

As we know, a basic contradiction exists in capitalist economy itself, i.e., the contradiction between the social character of capitalist production and private ownership of the means of production. Capitalist production differs from all previous forms of production in that it is mass production of commodities by modern techniques. The capitalists' instruments and methods of production require that hundreds and thousands of people work together in an organized way. This kind of means of production is social in character and its products are products of social labour. Therefore capitalist production is of a social character. But the form of ownership is still private. The owners of the means of production and the products of labour are a handful of capitalists. The capitalists' aim in organizing production is not to satisfy the needs of society nor to meet the demand of social labour, but to obtain profits. For this reason this private ownership of the means of production is incompatible with production of a social character. The same thing is true of commerce. Under the capitalist mode of production, commercial capital is dependent on industrial capital—it is industrial capital in the form of a commodity. As a detached portion of the total industrial capital, its main function is to realize the value and surplus value of the industrial workers' labour. The contradiction between capitalist ownership and the social character of capitalist production, therefore, also exists in capitalist commerce. As the social productive forces de-

velop and the social character of capitalist production becomes stronger, this basic contradiction in the capitalist economy itself becomes sharper. Consequently, capitalist relations of production cannot conform with but obstruct the development of the productive forces. The history of men's social development proves that relations of production must conform with the character of the productive forces. This is an objective economic law. Therefore, to liberate the productive forces we must first change the relations of production.

Socialism and capitalism are founded on two diametrically opposite systems of ownership. Their activities are governed by totally different economic laws. Irreconcilable contradictions are therefore bound to exist between them, which manifest themselves mainly in two ways:

First, socialist economy is founded on the system of public ownership of the means of production. The aim of its production and management is to satisfy the needs of society and raise the living standards of the people. Capitalist economy is founded on the system of private ownership of the means of production, its aim being to obtain surplus value through the exploitation of the workers. The existence of these two different and contradictory systems in one and the same society will naturally lead to a struggle between them. To build socialism, it is necessary to eliminate the system of exploitation and liberate the productive forces. As socialist economy develops, its superiority becomes more evident, the contradiction between the two systems of ownership becomes sharper and more obvious. If capitalist industry and commerce are not transformed along socialist lines and if capitalist ownership is allowed to continually ex-

pand, the development of the socialist system of ownership will be retarded.

Secondly, in China the construction of the national economy is carried out under the unified plan of the state. The balanced (proportionate) development of the national economy is a law of development of socialist economy, whereas the law of anarchy governs the development of capitalism. If unplanned capitalist production is not controlled and capitalist economy not transformed, anarchy, blind production and management will certainly impede the planned development of socialist economy. An increasingly acute contradiction will inevitably rise between the socialist and capitalist sectors of the economy in the sphere of raw materials, production, markets, cost of production, and prices. If capitalist industry and commerce are not changed they will always compete with the socialist sector of the economy in obtaining important raw materials and engage in production of secondary importance and of a wasteful nature. Their blind development will destroy the balance between supply, production and distribution on the market and upset the plan for developing the national economy. This state of things was by no means rare during the early transition period in our country. In 1953, for instance, owing to some immediate demands for medical supplies and, particularly for materials needed for cultural and educational purposes, capitalist industry began to manufacture these goods in a haphazard manner. This caused difficulties to arise in 1954 with regard to the supply of raw materials for production, and the marketing of these goods. As a result socialist industry had to cut down a part of its own production to maintain that of the capitalist enterprises. In this way, blind cap-

alist production created a contradiction between the socialist and capitalist sectors of the economy. Besides, competition, piracy, mutual discrimination, merging and depredation existed between the capitalist enterprises themselves. All this prevented the state from rationally and fully utilizing this section of the social productive forces and it was detrimental to the development of the social productive forces as a whole.

In capitalist enterprises, a contradiction also exists between the workers and the capitalists, i.e., between labour and capital. The basic cause of this contradiction is that the capitalists relying on their ownership of the means of production deprive the workers of a large part of the value they create. The contradiction between labour and capital in a society in transition is different from that in a capitalist society. In the latter the capitalists are the exploiting and also the ruling class. But during the transition period in our country, though the capitalists are still an exploiting class, they are not the ruling one. In New China the working class leads the state. As the workers have freed themselves from political oppression, naturally they cannot long tolerate economic exploitation by the capitalists. For this reason, the handling and solution of the contradiction between labour and capital inevitably becomes more and more a question of changing the capitalist system of ownership.

The contradictions mentioned above show the necessity of China transforming the capitalist sector of its economy. The contradictions between capitalist ownership and the social character of capitalist production, between capitalist and socialist ownership, between the anarchy of capitalist production and planned economic

construction by the state and between the workers and capitalists in capitalist enterprises, cannot be resolved by any other means than a socialist revolution. In 1954 Liu Shao-chi said in his *Report on the Draft Constitution of the People's Republic of China*:

It is impossible for two conflicting relationships of production, socialist and capitalist, to develop side by side in a country without interfering with each other. China will change either into a socialist state or a capitalist state; to keep China from changing means to halt the movement of all things—and this is absolutely impossible.¹

Thus in a society in transition the existence side by side of two different economic systems, socialist and capitalist, cannot remain without struggle. As Lenin once said, "This transition period cannot but be a period of struggle between dying capitalism and growing communism." This struggle must be carried out to answer Lenin's question, i.e., "Who will win?" Evidently either socialism will get the upper hand of capitalism or vice versa.

The socialist transformation of capitalist industry and commerce is not aimed at resolving the contradictions within the capitalist economy itself and those between the capitalist and socialist sectors only but is also directly connected with the socialist transformation of the section of individual ownership. In the beginning of the transition period, besides the socialist and capitalist sectors there were vast numbers of individual producers. These

¹ Liu Shao-chi, *Report on the Draft Constitution of the People's Republic of China*, Foreign Languages Press, Peking, 1954, p. 18.

formed a petty commodity economy which stood at the crossroads. On the one hand, it was based on the labour of individual people and not on exploitation. In this respect it could be led onto the path of socialism. But on the other hand, its means of production were private property and it was closely connected with the capitalist economy. For this reason it had a spontaneous tendency towards capitalism. Whether it took the path of socialism or that of capitalism, whether it served the interests of socialism or became a breeding ground for capitalism, depended on the final outcome of the struggle between the two systems to decide, who will win? Thus, if we had not carried out the socialist transformation of capitalist industry and commerce, the socialist transformation of the multifarious individual commodity production would have been hampered.

Capitalist industry and commerce, therefore, had to be transformed. The old capitalist relations of production had to be replaced by new socialist ones. Only in this way could the transition to socialism be realized in our country and the final victory of socialism be ensured.

To correctly understand the policies and measures adopted in China with regard to the transformation of capitalist economy during the transition period, it is necessary to make first a historical review of the birth and development of capitalism in China.

Chapter Two

Chinese Capitalism and the Chinese Bourgeoisie

1. THE BIRTH AND GROWTH OF CHINESE CAPITALISM

As has been already explained, pre-liberation China was a semi-colonial and semi-feudal country, not an advanced capitalist one. Under such historical conditions, Chinese capitalism, from its birth and during its development, travelled along a devious and difficult road.

Capitalism developed rather late in China, feudalism lasting for more than 3,000 years. In the mid-19th century when many Western countries had reached the final stage of capitalism, i.e., the stage of imperialism, Chinese society remained feudal. True, the development of a commodity economy in feudal society carried within itself the embryo of capitalism. Even without the influence of foreign capitalism, a capitalist society would slowly have grown in China. The penetration of foreign capitalism, however, quickened its growth.

This penetration accelerated the development of a commodity economy in town and country, which played an important role in the disintegration of old China's social economy. On the one hand, it undermined the foundation of a self-sufficing natural economy, and on

the other hand, it disrupted the handicrafts in the cities and those operated by the peasants in their homes. The destruction of the natural economy created a commodity market for capitalism and the bankruptcy of large numbers of peasants and handicraftsmen created a capitalist labour market. Under the stimulus of foreign capitalism and as a result of certain breaches in the feudal economic structure, Chinese capitalism began to grow.

The predecessors of the Chinese bourgeoisie were a section of the merchants, landlords and bureaucrats while the predecessors of the Chinese proletariat were a section of the peasants and handicraftsmen. In the latter half of the 19th century, a number of merchants, landlords and bureaucrats began to invest in and establish modern industries. These were the first capitalist enterprises to appear in China. Chinese capitalism, however, soon found itself in a precarious position. The imperialist powers certainly did not invade China for the purpose of helping it to develop its own industry or to change it from a feudal to a capitalist country. On the contrary, they attempted to place China under their permanent control and to turn it into a colony subject to their exploitation and enslavement. The development of a national industry in China was disliked by the imperialists. Objectively, the penetration of foreign capitalism hastened the appearance and rise of capitalism in China, but with imperialism controlling the key branches of China's economy, Chinese national capitalism was, from its birth, beset by all kinds of oppression and restrictions. It was assailed and crowded out by the economic power of imperialism, and also hampered by the feudal force which collaborated with imperialism. It was a victim of both foreign imperialism and domestic

feudalism. During World War I when the European imperialist powers, preoccupied with the war, temporarily relaxed their oppression, Chinese national industry — light industry, mainly textile and flour milling — developed to a certain degree. At other times it never expanded normally.

This explains why it was impossible for economically backward China to develop into an independent capitalist country as long as imperialism was bent on enslaving the Chinese people. While imperialist invasion had pushed a backward and feudal country into the fold of world capitalism, it also blocked its way to becoming an independent, modern capitalist country. As Mao Tse-tung described Chinese history in the last century, "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

In the devious course of its development, Chinese capitalism was separated into bureaucrat-comprador and national capitalism; the Chinese bourgeoisie into bureaucrat and national bourgeoisie. The division of the Chinese bourgeoisie into two sections was characteristic of Chinese capitalism during its development under semi-colonial and semi-feudal historical conditions.

2. THE FORMATION AND CHARACTERISTICS OF THE BUREAUCRAT-BOURGEOISIE

Mao Tse-tung described bureaucrat-capital as "the capital of the big landlords, big bankers and big compradors"

¹ Mao Tse-tung, *op. cit.*, Vol. III, p. 123.

dors.”¹ Clearly it had both feudal and comprador characteristics. It was a product of collaboration between the imperialist and feudal forces when imperialism dominated China.

The bureaucrat-landlords and business men were mainly the ones who first established capitalist enterprises in China, the former preceding the latter. In the 1860s, feudal bureaucrats in the Manchu government, among them Tseng Kuo-fan, Li Hung-chang and Tso Tsung-tang, began to set up arms works using modern machinery. To supply this new industry with materials, coal and iron ore mining followed. Subsequently came certain light industries. In the thirty-odd years between the 1860s and the Sino-Japanese War of 1894 — the period of the so-called Westernization Movement — over forty officially-operated and joint official-merchant operated enterprises were set up. This was the first bureaucrat-capital, or bureaucrat-capital at its initial stage. It was strongly feudal in character, i.e., it was closely integrated with feudalism at that time.

As imperialism penetrated further and dominated China, however, the character of bureaucrat-capital changed. Imperialism needed a number of Chinese people and Chinese economic establishments to help it expand its economic power in China. Consequently, a class of compradors arose. But such a class alone could not meet the requirements of imperialism which designed to control China completely. To quote the words of Mao Tse-tung again: “Besides the comprador class, imperialism makes the Chinese feudal landlord class the mainstay

¹ Mao Tse-tung, *op. cit.*, Vol. IV, p. 261.

of its rule over China.”¹ So, the feudal bureaucrats and imperialists collaborated. To the feudal character of bureaucrat-capital was now added that of the comprador. It was the handmaid of the imperialist and feudal forces. The big four families of Chiang Kai-shek, T. V. Soong, H. H. Kung and the Chen Li-fu-Chen Kuo-fu brothers were the representatives of the bureaucrat-comprador bourgeoisie.

Having established its reactionary rule serving the interests of imperialism and feudal forces, the bureaucrat-capitalist class made use of its political power to monopolize the economy. Such monopoly capital, however, did not grow out of a highly developed Chinese capitalism but out of the collaboration between imperialism and feudalism and from the political dictatorship of the bureaucrat-capitalist class. Mao Tse-tung said in 1947 in his *The Current Situation and Our Tasks*:

This monopoly capital, when combined with the political power of the state, becomes state monopoly capitalism. Closely connected with foreign imperialism and the landlord class and the old-style rich peasants at home, it becomes state monopoly capitalism of a comprador and feudal character. It is the economic base of Chiang Kai-shek's reactionary regime. It oppresses not only the workers and peasants but also the petty bourgeoisie and does harm to the middle bourgeoisie.²

As an instrument serving the economic aggression of imperialist monopoly capital, the bureaucrat-capitalists

¹ Mao Tse-tung, *op. cit.*, Vol. III, p. 79.

² *The Current Situation and Our Tasks*, Chinese edition, Hsinhua Bookstore, Peking, 1949, p. 27.

established their complete control over old China's economic life-lines. On the eve of the victory of the Chinese people's revolution, in banking they controlled 2,448 out of 3,489 banks and 59 per cent of the total capital of all banks in the country. In communications and transport, they controlled the entire railway, highway and aviation systems and over 45 per cent of the shipping tonnage. In the field of heavy industry, the "National Resources Commission" alone, run by bureaucrat-capital, controlled 67 per cent of the country's output of electric power, 33 per cent of coal, 90 per cent of steel, 45 per cent of cement, the entire petroleum and non-ferrous metals, and in light industry, 40 per cent of the spindles and 60 per cent of the looms in the cotton mills. Of the total industrial capital in the Kuomintang-controlled areas, bureaucrat-capital constituted about two-thirds.

Relying on the power, political domination and economic monopoly of imperialism, the bureaucrat-capitalists, acting as its stool-pigeons, ruthlessly exploited the Chinese people. Imperialism refused to allow Chinese national capitalism to develop, but it needed and found a tool in the bureaucrat-capitalists. During the twenty years they were in power, they seized enormous wealth, but China's national economy did not enjoy expansion and the people of all other strata became poorer or went bankrupt day after day. The bureaucrat-capitalists represented, therefore, the most reactionary relations of production at that time. The existence of comprador and feudal bureaucrat-capitalism had become the most serious stumbling-block to the development of the productive forces of Chinese society. According to Mao Tse-tung, "The Chinese big bourgeoisie, which is of a comprador

character, directly serves imperialism and is under its protection. Hence the Chinese big bourgeoisie with its comprador character has all along been a target of the revolution."¹ The Chinese people's revolution was, therefore, a struggle against three enemies — imperialism, feudalism and bureaucrat-capitalism.

3. THE GENERAL CONDITION AND CHARACTERISTICS OF NATIONAL CAPITALIST INDUSTRY AND COMMERCE

Both national and bureaucrat-capitalism are based on private ownership of the means of production and the exploitation of wage labour. But since they have a different social status, there are obvious differences between them which are mainly manifested in two ways:

Politically, the bureaucrat-capitalists were the ruling class in old China, subordinate to imperialism, while the national capitalists had actually never been in power. The latter was composed chiefly of the middle and small capitalists who, while they had certain connections with the bureaucrat-capitalists politically and economically, were oppressed and discriminated against under their reactionary rule. This class represented the progressive relations of production in semi-colonial and semi-feudal Chinese society, expanding national, modern production in a certain period and to a certain degree.

Economically, bureaucrat-capitalism, as a tool of the foreign monopolies, controlled the life-lines of old China's economy, while national capitalism, though having arisen after the penetration of imperialism, was forced to strug-

¹ Mao Tse-tung, *op. cit.*, Vol. III, p. 57.

gle for survival under the oppression and restriction of the imperialist and feudal forces and it never fully developed. National capitalism was weak at its birth and remained so afterwards. On the eve of the victory of the Chinese people's revolution, it was almost breathing its last. Had it not been for the victory, it would not have survived strangulation.

The success of the democratic revolution freed Chinese national capitalism from the yoke of imperialism, feudalism and bureaucrat-capitalism. The number of industrial enterprises run by national capital in 1949 was 123,165 employing over 1,640,000 workers and other employees and producing a total value of over 6,800 million yuan in that year. In 1950 the number of commercial establishments, including the vast number of private, individual small merchants, was about 4,020,000; there were 6,620,000 people (of whom over 960,000 were employees) engaged in the trades; and the sales totalled over 18,200 million yuan. In a semi-colonial and semi-feudal society, China's underdeveloped national capitalist industry and commerce could not but bear the stamp of such social conditions. They were characterized by a weak foundation, a strongly dependent character and inability to form an independent economic system. The following were the principal manifestations:

First, they lacked an independent economic base. National capitalists mainly ran light industry. There was very little heavy industry. The 1954 statistics show that of the gross output value of 133,962 capitalist industrial enterprises in the whole country, consumer goods constituted over three quarters and capital goods less than a quarter. Take machine-building for example. In Shanghai, the largest industrial and commercial city of

China, before the victory of the revolution there were only 18 machine plants employing more than 100 workers each and most of them could only assemble and repair but not make machinery.

The dependent character of national capitalist industry was further shown in the fact that there were more workshops than complete factories. Of the more than 1,000 machine plants in Shanghai, only seven were complete in all processes, and of the 443 knitwear mills, only two per cent were complete.

Since national capitalist industry could not stand on its own feet, in the past it had to depend on imperialism and bureaucrat monopoly capital for mechanical power equipment and certain kinds of materials which had to be imported from abroad or supplied by bureaucrat-capitalist enterprises. After the founding of the People's Republic of China, it had to depend on the socialist sector of the economy when the latter developed and became strong and began to assume control of the national economy.

Secondly, the bulk of national capitalist industry and commerce was rather small and equipment and technique rather backward. In 1953, for instance, of the 150,275 capitalist industrial enterprises, 104,776 or 69.7 per cent employed less than 10 workers each; 39,881 or 26.5 per cent employed more than 10 and less than 50 workers each; 3,570 or 2.4 per cent employed more than 50 and less than 100 workers each; and 2,048 or 1.4 per cent employed more than 100 workers each. And of these 2,048, only 164 enterprises employed more than 500 workers each. As to equipment and technique, modern industry constituted 20.93 per cent of the total number of the industrial enterprises, and handicrafts manufacture, 79.07 per cent.

Commerce was extremely scattered as well as backward. In 1950, for example, of the 4,020,000 private commercial establishments in the country, capitalist enterprises numbered only 132,700 while the majority were individual traders, and the average capital of these capitalist enterprises was less than 10,000 yuan.

Thirdly, the uneven and irrational geographic distribution of capitalist industry and commerce made it develop in a lop-sided way. In old China imperialism used the major coastal cities in which to dump its commodities and from which to grab raw materials; hence, these cities' abnormal prosperity. Under such circumstances, China's national capitalist industry and commerce grew. In the past, capitalist industry imported most of the materials needed instead of using those which were home-produced. So, it was concentrated along the coast rather than near the areas where the raw materials were produced, or consumer areas. According to the 1954 statistics 62.37 per cent of the capitalist industrial enterprises with 68.27 per cent of their workers and other employees and 82.71 per cent of their output value were concentrated in seven coastal provinces (Hopei, Liaoning, Shantung, Kiangsu, Chekiang, Fukien and Kwangtung) and two cities (Shanghai and Tientsin). In Shanghai and Tientsin, the two largest points from which imperialism spread its tentacles of economic aggression, capitalist industry accounted for half of the output value of the country's capitalist industry.

The same thing was true of private commerce. Instead of forming networks to serve the needs of the people and home market, private commerce in old China was mainly engaged in marketing the products of imperialist monopoly capital. The private commercial firms were concen-

trated in the major cities. According to an investigation made in 1955, in eight major cities — Peking, Shanghai, Tientsin, Canton, Wuhan, Shenyang, Chungking and Sian — there were over 470,000 private commercial establishments in which over 680,000 people were engaged. One out of every 28.4 people in these cities at that time was engaged in private commerce; in Canton the average was one out of every 13.

Fourthly, the national capitalist industry and commerce which developed in a semi-colonial and semi-feudal society had a conspicuously speculative character. Capitalism and speculation were naturally inseparable. Lenin once said that capitalism was a speculative undertaking. Under the influence of the social conditions, the speculative character of the Chinese national capitalist industrial and commercial enterprises was more obvious.

In old China, the imperialist economic force was the greatest speculative one. The imperialist-patronized bureaucrat-capital headed by the four big families was actually a kind of speculative capital which took advantage of its political privileges to engage in the most extensive speculative activities, creating the most serious economic disorder in the whole social structure. In the last 10-odd years of the Kuomintang reactionary rule, i.e., from June 1937 to May 1949, the volume of currency notes issued increased over 170,000 million times; the commodity prices, in Shanghai for example, rose 13,000,000 million times. Such chaotic economic conditions brought about ruination of social production and upset the life of the people, but they opened wide fields for speculation. Up to the victory of the revolution there were over 500,000 speculative undertakings of all kinds which had grown out of the runaway inflation. The

situation being as it was, legitimate production and enterprise found no way out. As a consequence, the national capitalists, too, took to speculation. Hoarding, speculative buying and selling and other unlawful activities replaced regular production. Large sums were turned into speculative capital, completely divorced from productive enterprises.

In short, in a semi-colonial and semi-feudal society, national capitalist industry and commerce existed as capitalist economy in an underdeveloped way. Actually, they played an active role in developing the social productive forces, expanding production with modern techniques to a certain extent and setting up China's national industry and commerce but only under the restrictions imposed upon them by imperialism and reactionary rule. At the same time, in seeking capitalist profit and exploiting the working class, they maintained close and many-sided relations with imperialism, feudal economy and bureaucrat-capital and under the conditions of protracted, vicious inflation they assumed a particularly striking speculative character.

Since the national capitalist enterprises had the above-mentioned characteristics and since the Chinese national economy was very backward, these enterprises played a double role, after the founding of the People's Republic, both in the national economy and in the people's life. On the positive side, i.e., the side beneficial to the national economy and the people, they were a force not to be overlooked in the years immediately following the liberation. In 1949, capitalist industry accounted for 63.3 per cent of the gross output value of the country's industry. In 1950 the total volume of private trades occupied 76.1 per cent and 85 per cent of the country's wholesale and

retail trades respectively. Capitalist enterprises supplied 70 per cent of the industrial products sent to the vast countryside. They were then keeping millions of workers and others employed. In a backward economy which had been trammelled and wrecked by reactionary rule for a long time, capitalist industry and commerce showed a positive usefulness in increasing production, expanding commodity exchange, in satisfying people's needs and providing employment. On the negative side, i.e., the side not beneficial to the national economy and the people, their capitalist exploitation, blind production and irrational geographic distribution were detrimental to the interests of the broad masses of the working people. They were obstacles to socialist economic construction and they could not but adversely affect the further development of the productive forces.

Such positive and negative aspects of national capitalist industry and commerce were their basic characteristics in the early years of the People's Republic.

4. THE DUAL CHARACTER OF THE NATIONAL BOURGEOISIE

China's national capitalists numbered over a million, the majority of whom were middle and small capitalists. The 1956 statistics show that 95 per cent of them each invested less than 10,000 yuan. Of the 27,335 industrial capitalists each of whom made investments of over 10,000 yuan, 25,622 invested between 10,000 and 100,000 yuan, 1,624 invested between 100,000 and 1,000,000 yuan and 89 invested over 1,000,000 yuan. Of the 89, only seven each invested more than 5,000,000 yuan. In trade, catering and personal services, only 5,829 persons each invested

over 10,000 yuan. Of this number 5,653 each invested between 10,000 and 100,000 yuan; 132, between 100,000 and 200,000 yuan; 24, between 200,000 and 300,000 yuan; and 20, over 300,000 yuan.

The economic status of the national capitalists determined their characteristic — dual political character, i.e., their politically contradictory character in relation to the revolution. This stemmed from the social and historical conditions in which they found themselves.

The Chinese people's revolution against the reactionary rule of imperialism, feudalism and bureaucrat-capitalism was bourgeois-democratic in character. The overthrow of the reactionary regime to liberate the Chinese people from imperialist oppression and enslavement was not only in the interests of the working class, the peasantry and the petty bourgeoisie, but also conformed to the interests of the national capitalists. However, as the strength of the latter was weak, they could not successfully lead the revolution. In Chinese history the democratic revolutionary movements led by the bourgeoisie all ended in failure. No one else could take up the task of leading the revolution but the working class. The reasons were:

(1) The working class was well organized. Chinese national capitalism was not well developed. But the Chinese working class not only developed with national capitalism but grew with the establishment of imperialist enterprises in China and the growth of bureaucrat-capital. It was a brand-new labouring class connected with modern production. It was strongly organized and well disciplined.

(2) The Chinese working class suffered from the triple ruthless oppression and exploitation of imperialism, feudalism and capitalism. Industrial workers generally

worked 12 hours a day or more, some as long as 18 hours; their wage was extremely low; and safety provisions were poor; cases of sickness, injury or even death at work were numerous. There was also extra-economic exploitation. Politically the workers had no democratic rights. Since they were a class which suffered the worst oppression and exploitation, they were most resolute, persistent and thorough in revolution.

(3) The bulk of the Chinese working class came from the bankrupt peasantry, hence their natural connection with the peasants. As China's peasants constituted the overwhelming majority of the population, the peasant question was a basic one in the revolution. Whoever could successfully unite and lead the broad peasant masses would succeed in leading the Chinese revolution. It was the working class who represented the interests of the peasantry, and became their firm ally.

(4) A more important point was that the Chinese working class, as soon as it stepped onto the political stage, accepted the leadership of its own political party — the Chinese Communist Party — and secured the selfless assistance of the Russian working class who had won the October Revolution as well as the support of the working class of other countries.

It was these conditions which determined the fact that the Chinese working class was destined to become the basic motive force of and give leadership to the revolution.

During the democratic revolution led by the working class, the national capitalists wavered between the revolution and counter-revolution. They had sharp contradictions with imperialism, feudalism and bureaucrat-capitalism — the three enemies from whose oppression and bondage they desired to be free, but they also had

contradictions with the working class and the vast number of labouring people whom they exploited. They had fears for their strength. Hence, their inconsistent attitude towards the revolution and their dual political character.

The dual character of the national capitalists in the democratic revolution was aptly described and analysed by Mao Tse-tung. He said:

The national bourgeoisie is a class with a dual character.

On the one hand, this class is oppressed by imperialism and fettered by feudalism and is consequently in contradiction with both. In this respect it constitutes one of the revolutionary forces. In the history of Chinese revolution it has shown some enthusiasm for fighting imperialism and the government of bureaucrats and warlords.

But on the other hand, it lacks the courage to oppose imperialism and feudalism thoroughly because it is economically and politically flabby and its economic ties with imperialism and feudalism are not yet completely severed. This is most clearly revealed when the people's revolutionary strength grows.

This dual character of the national bourgeoisie means that at certain periods and to a certain extent this class can take part in the revolution against imperialism and against the government of bureaucrats and warlords and become a revolutionary force. But in other periods there is the danger that it may follow the big comprador bourgeoisie as its accomplice in counter-revolution.¹

¹ Mao Tse-tung, *op. cit.*, Vol. III, pp. 89-90.

The actual experience of the Chinese revolution fully confirmed Mao Tse-tung's analysis.

Because of their revolutionary inclination in opposing imperialism and feudalism during the democratic revolution, the national capitalists formed an alliance with the working class and accepted its leadership. This alliance was built on the basis of opposing common enemies. On the other hand, because of its flabbiness and the difference in class interests vis-a-vis the labouring people, the national capitalist class often showed vacillation and a tendency to compromise in revolution. Nevertheless, as the Chinese Communist Party correctly analysed and understood its dual character, adopted a correct policy towards it and set up the people's democratic united front, it was possible to unite and re-educate the majority of the capitalists and enable them to take part in, sympathize with or support the democratic revolution. Thus its alliance with the working class was maintained and developed until the democratic revolution was completely won.

After the founding of the People's Republic of China, the national capitalists participated in the people's democratic government led by the working class and based on the worker-peasant alliance, so that their historical alliance with the working class was maintained. In this period they were politically still a class with a dual character. The objective conditions then, however, were greatly different from those of the earlier period of democratic revolution, the bourgeois-democratic revolution having changed into a proletarian socialist one. Consequently, the content and manifestations of the dual character of the national capitalists were different.

As the people's democratic power was established, as the socialist sector of the economy emerged and grew and

as the worker-peasant alliance was further consolidated, the strength of the working class became ever greater. Under such conditions, the national capitalists, still in alliance with the working class, expressed their willingness to continue accepting the latter's leadership, the Common Programme and the Constitution and participated in movements to oppose imperialism and eliminate the remnants of feudal forces, namely, the movement to resist U.S. aggression and aid Korea, and the agrarian reform. They expressed their readiness to gradually accept socialist transformation. On the other hand, in the interests of their own class they had a strong desire to develop capitalism and obtain profit. This could not but come into sharp conflict with the interests of the working class and other labouring people.

"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 Such was the dual character of the Chinese national capitalists. Under conditions of the proletarian dictatorship in the period of socialist revolution, thanks to the correct analysis and full grasp of this special characteristics of the national capitalists by the Chinese Communist Party, its adoption of correct policies and continual maintenance of the united front with them, this class was able to take the path of gradually accepting socialist transformation.

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

Chapter Three

The Peaceful Transformation of Capitalist Industry and Commerce

1. THE EXPROPRIATION OF THE BUREAUCRAT-CAPITAL AND THE BUYING OFF OF THE NATIONAL CAPITALISTS

Since there was a great difference between the bureaucrat-capitalists and national capitalists in their social, political and economic status as well as in their political attitude, after the founding of the People's Republic of China, the People's Government adopted different policies to deal with them. The state expropriated the property of the bureaucrat-capitalists who persisted in their hostile attitude towards the Chinese people, nationalizing without compensation nearly 3,000 of their enterprises and changing them into the socialist state sector of the national economy. In dealing with the means of production belonging to the national capitalists, however, the state adopted a policy of "buying them off."

During the socialist transformation of capitalist industry and commerce the state paid a certain price for the means of production which it took over from the national capitalists instead of expropriating it without compensation.

This "buying off" was not an ordinary business transaction, since the means of production appropriated by the capitalists were originally created by the working class who should therefore be the real owners. Then it may be asked, why the state should adopt such a policy and pay them a certain sum for compensation? It was for the purpose of achieving the socialist revolution by peaceful means, reducing obstruction and inducing the capitalists to accept socialist transformation.

The subject of "buying off" had been discussed more than once by the great teachers of proletarian revolution — Marx, Engels and Lenin. Marx said long ago that under certain conditions it would be in the interest of socialism for the working class in power to "buy off" the capitalists. In 1847, Engels proposed in his *Principles of Communism* that the means of production might be nationalized partly by means of competition through state-owned industry and partly by "buying off" with paper currency from the owners. Lenin said in his well-known "The Tax in Kind":

. . . The idea was conceivable of *paying the capitalists well*, of buying them off, if the circumstances were such as to compel the capitalists to submit peacefully and to come over to Socialism in a cultured and organized fashion, provided they were bought off.¹

Lenin was the first to put forth the theory of combining "buying off" with state capitalism. He said:

We can and ought to *combine* the method of ruthless suppression of the uncultured capitalists, who refuse

¹ Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 537.

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 to "state capitalism," who are capable of putting it into practice and who are useful to the proletariat as clever and experienced organizers of very large enterprises, which supply commodities to tens of millions of people.¹

The policy of "buying off" which is still being carried out in China towards the national capitalists during the transition period is the application and development of this Marxist-Leninist theory in China under specific conditions.

In our country, compensating the national capitalists was combined with the transforming of capitalist industry and commerce. Under the policy of peaceful transformation, capitalist industry and commerce were not changed at one stroke but gradually. The capitalist means of production were not bought outright by the state at once with a lump sum. It was done step by step. Specifically, when the working class produced things to satisfy the needs of the state and the people, it also produced some profits for the capitalists within a certain period. Besides, during the transformation of these enterprises, the state provided employment for all the capitalists who had occupied posts in their enterprises and made proper arrangements for them according to their individual capacities. In general, the high salaries

¹ *Ibid.*, p. 536.

of a number of capitalists remained unchanged. Such methods were part of the policy of "buying off," through which the state made provision for the capitalists' livelihood and their work so that there would be no abrupt changes in their living standards during the socialist transformation. This helped them to cast aside their misgivings and encouraged them to accept socialist transformation and serve socialism.

Why was the aim of socialist revolution achieved through such peaceful means? It was because as a class the national capitalists, as mentioned before, had a dual character. They had historical relations with the working class as an ally in the period of democratic revolution. After the founding of the People's Republic of China they participated in the people's democratic state power and continued to accept the leadership of the working class. Capitalist economy also existed as a component part of the national economy during the transition period. Under these circumstances it became possible to realize the transformation from capitalism to socialism through peaceful means, instead of by force. And peaceful transformation avoided or reduced possible damages and destruction during the changes while the economic order of society was not disturbed. Obviously, it was advantageous to the state and the people.

While one aspect of the national capitalists' dual character and their historical relations with the working class made it possible for them to accept peaceful transformation, there was another side. As capitalists, naturally they had a strong desire to develop capitalism and would not accept socialism of their own accord. Therefore, to translate possibility into reality, certain objective conditions were required. During the transi-

tion period in China, the Chinese Communist Party correctly estimated and analysed the objective conditions facilitating the national capitalists' acceptance of such transformation.

Internally, a people's democratic state power led by the working class and based on the worker-peasant alliance had been established and was continuously getting stronger and more consolidated. It was leading the people of the whole country to a bright future of strength, wealth, and prosperity. "The fundamental question of every revolution is the question of power" — one of the basic principles of Marxism-Leninism — was once again proved true in the course of the socialist revolution in China. Without state power led by the working class it would have been impossible for the capitalists to accept socialism spontaneously and it would have been even more inconceivable that they would accept peaceful socialist remoulding. Immediately after the Chinese people had secured political power, the state nationalized bureaucrat-capital and established the socialist sector which controlled the main branches of the national economy. The state began to run the banks, many industrial and mining enterprises, the entire railway system, most of the iron and steel industries, the main branches of heavy industry and some principal branches of light industry. Thus, a material base for the socialist transformation of capitalist industry and commerce was laid and the leadership of the socialist sector over the capitalist sector of the national economy ensured. The foundation of our national capitalist economy was very weak. In the past it was forced to rely upon imperialism and bureaucrat-capital, and later in New China it had to

depend upon the socialist sector of the economy. After the working class had taken over control of state power and established the superiority of the socialist state sector, there were still some very complicated struggles during the socialist transformation period. But it was then possible to accomplish this transformation by peaceful means through the control of the state administrative organs, the leadership exercised by the state sector of the economy and supervision by the workers.

Under these circumstances the capitalists could find no alternative but to submit to the leadership of the working class and take the socialist road. As long as they understood the general trend, were ready to accept socialist transformation, and did not violate the law or damage the people's property, they were given consideration by the state and their future livelihood and work were properly arranged for them and their political rights were not denied.

Externally, the socialist camp headed by the Soviet Union was getting ever stronger and the socialist movements as well as the national independent movements were making big headway throughout the world while international capitalism was declining. All this favourably influenced the socialist transformation of capitalist industry and commerce in our country.

Thus, the internal and external conditions were favourable to successful socialist transformation by peaceful means. As Mao Tse-tung said in January 1956:

Under the conditions existing in our country, the use of peaceful means, i.e., the method of persuasion and education, can change not only individual ownership

into socialist collective ownership but also capitalist ownership into socialist ownership.¹

2. THE USE, RESTRICTION AND TRANSFORMATION OF CAPITALIST INDUSTRY AND COMMERCE BY THE STATE

The socialist transformation of capitalist industry and commerce by the state was not accomplished in one morning, it was carried out gradually over quite a long period of time. During this period, the state adopted the policy of using, restricting and transforming capitalist industry and commerce. This meant making use of the positive sides of capitalist industry and commerce which were beneficial to the national welfare and people's livelihood, restricting their negative sides and gradually replacing capitalist ownership with ownership by the whole people through various forms of state capitalism. Article 10 of 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

¹ Speech made at the Supreme State Conference on January 25, 1956.

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.

The policy of using capitalist industry and commerce was accepted more easily by the national capitalists and it fully met the requirements of the developing national economy in our country at the time. As was mentioned before, China was an economically backward country and her national economy, which had long suffered from plunder and spoliation by imperialism and reactionary regimes, remained in a pitiful state and the people lived in extreme poverty. In 1949, the year of the victorious revolution, modern industry accounted for only 17 per cent of the combined gross output value of industry and agriculture. The great and urgent task then for the Chinese people who had already won victory in the anti-imperialist revolution was to restore and reconstruct their national economy. Otherwise, the results gained in the revolution could not be consolidated, nor could the people's living standards be gradually raised. It was, therefore, necessary to vigorously develop the socialist state sector of the economy and to mobilize and make full use of the various other economic forces. Capitalist industry and commerce were then a force which could not be overlooked in China's national economy. In 1949, the capitalist industry accounted for 63.3 per cent of the nation's gross industrial output value. In 1950, private commerce did 76.1 per cent of the wholesale trade on the domestic market and 85 per cent of the retail trade. Private enterprises, industrial and commercial, played an active part in increasing the production of commodities,

expanding commodity exchange, accumulating reserve funds for national construction, keeping a large number of people employed and training technical personnel. Therefore, making correct use of the positive sides of capitalist industry and commerce beneficial to the national welfare and people's livelihood enabled the state to exchange more industrial products with the peasants for grain, industrial raw material and other agricultural products, to stabilize the market and prices and give the people a sense of security. In this way millions of workers and office employees in the capitalist enterprises were assured of employment. Consequently, the state could turn its chief attention to socialist economic construction with heavy industry as its core.

The backward economic situation in our country necessitated making use of capitalist industry and commerce during a certain period and to a certain degree. In 1949, on the eve of the victory of the democratic revolution, Mao Tse-tung pointed out:

To meet imperialist pressure and to raise China from her low economic position, China must utilize all elements of urban and rural capitalism that are beneficial and not harmful to the national economy and the people's livelihood, and unite with the national bourgeoisie in the common struggle.¹

Thanks to the policy adopted by the state of making use of capitalist industry and commerce during the rehabilitation period from 1949 to 1952, those private enterprises beneficial to the national welfare and people's livelihood not only restored their normal production and

¹ Mao Tse-tung, *On People's Democratic Dictatorship*, Foreign Languages Press, Peking, 1959, p. 17.

business but also expanded to a certain extent, serving the state sector of the economy as an auxiliary in many aspects. The number of capitalist industrial enterprises increased by 21.44 per cent in 1954 as compared with 1952, while the number of their workers and other employees increased by 25.1 per cent and their output value increased by 54.2 per cent.

It must be pointed out, however, that this policy of the state stemming from the requirements of socialist construction by no means allowed capitalism to have free play. While utilizing its beneficial side the state had to restrict its negative side. For instance, the state allowed the capitalists to make certain profits but restrained them from seeking higher ones and increasing their exploitation. The state allowed their enterprises to develop to a certain extent provided they were beneficial to the national welfare and people's livelihood, but checked their blind expansion and therefore prevented them from undermining the state economic plan. Capitalist speculation and unlawful activities were banned or controlled. After the founding of the People's Republic restrictions were placed upon capitalist industry and commerce. These included the scope of their production and business, purchasing, marketing and prices, taxation and profits, and the working conditions for the workers. Naturally these restrictions clashed with the narrow class interests of the national capitalists, some of whom continually opposed or violated them. The struggle between restriction and counter-restriction reflected the contradictions between the working class and the national capitalists during the transition period.

Neither use nor restriction of capitalist industry and commerce could fundamentally change the capitalist

relations of production and completely resolve the various contradictions of the capitalist sector itself and those between it and the socialist sector. As a consequence, the productive forces in the capitalist sector could not be fully developed. The policies of use and restriction were for the purpose of carrying out the socialist transformation of private enterprises. Under the conditions existing during the transition period in our country, such socialist transformation was carried out in two steps: The first was to change capitalist enterprises into state-capitalist ones, and the second was to change them into socialist ones. In general state capitalism was developed from the elementary to advanced forms. What was noteworthy was that the transformation of capitalist industry and commerce through the forms of state capitalism made it possible to integrate the policies of use, restriction and transformation for the gradual transition to socialism. The method of step-by-step transformation conformed with the requirements of economic life in the various stages of the development during this transition period. It helped to avoid the unnecessary losses and confusion that might have resulted from abrupt changes and it gave the capitalists an opportunity for education through practical experience.

The use, restriction and transformation of capitalist industry and commerce were component parts of an indivisible whole. Only when the positive sides of capitalist industry and commerce were correctly used, could their negative sides be restricted; and only when their negative sides were restricted, could their positive side be fully utilized. To obtain the best results from the use and restriction of private enterprises, it was necessary to gradually carry out their socialist transformation.

3. UNITY AND STRUGGLE AND UNITY THROUGH STRUGGLE

The Chinese national capitalists, as a class, had a dual character. In old China they had been discriminated against and oppressed by imperialism, feudalism and bureaucrat-capitalism. So to a certain degree they had the revolutionary desire to oppose these three forces of oppression. In the period of China's democratic revolution, they allied themselves with the working class, which was striving to win them over to the revolutionary side through this alliance and unite with them to oppose the common enemy of the Chinese people.

During this period, however, the national capitalists often tended to vacillate and compromise. They were rather weak both politically and economically. They had not completely severed their ties with imperialism, feudalism and bureaucrat-capitalism and lacked the courage to carry the revolution to its completion. Therefore, in a certain period and to a certain extent they sympathized, supported or even took part in the revolution and became one of the revolutionary forces. But in another period (for instance in 1927 after the defeat of the First Revolutionary Civil War) they betrayed the revolution, went over to the side of the imperialists and their lackeys, and became an accomplice of the counter-revolution.

With an ally of such a vacillating character, the Chinese Communist Party adopted the policy of unity and struggle and unity through struggle to deal with their dual trends. It was to unite with them because they had a revolutionary side, i.e., their positive side, and to struggle against them because they tended to vacillate and com-

promise, i.e., their negative side. These two methods seem to be contradictory and opposed to each other. But in dealing with a class like the Chinese national capitalists, the working class had to use the double method of unity and struggle which were two aspects of a single, indivisible policy. In order to expand the revolutionary forces and isolate the enemy it was possible and necessary to unite the national capitalists and win them over to the revolutionary ranks since they had their revolutionary side. If we had not distinguished between the national capitalists, and the bureaucrat-capitalists and feudal landlords, and had adopted the same policy towards them all, we would have been liable to commit the mistake of "Left" opportunism, which would have been obviously detrimental to the cause of revolution. But as to the national capitalists' tendency to vacillate and compromise, we could not appease them. We had to educate them and conduct appropriate struggles against them. Otherwise, we might have committed mistakes of Right opportunism harmful to the revolution. It can be seen, therefore, that in the alliance and co-operation between the working class and the national capitalists there were both unity and struggle. Unity was the aim of struggle and struggle was a means of achieving unity.

This correct policy of the Chinese Communist Party resulted in reducing the capitalists' tendency to vacillate and compromise on the one hand and upheld and strengthened their revolutionary side on the other. They began to take part in the people's democratic united front led by the working class and based on the worker-peasant alliance. The formation of the alliance between the working class and the national capitalists was of great

significance in both the democratic and socialist revolutions.

Since the founding of the People's Republic, the national capitalists have taken part in the people's democratic dictatorship, while the working class, on the basis of the worker-peasant alliance, has continued to maintain its alliance with the national capitalists. Naturally, this alliance now plays a different role from what it used to do. Whereas during the stage of democratic revolution this alliance was based upon opposition to imperialism, feudalism and bureaucrat-capitalism, during the present stage of socialist revolution, it is based on the necessary requirements for building socialism. The aim of the working class is to lead and educate the national capitalists through this alliance, unite them to serve socialism and encourage them to accept socialist transformation.

In the present stage of the socialist revolution, the dual character of the national capitalists manifests itself in two ways. They are ready to support the leadership of the Chinese Communist Party and the working class and abide by the Constitution of the People's Republic of China. At the same time they have a strong desire to develop capitalism. In other words, the majority of this class always waver between the capitalist and socialist roads. Therefore, because of the persistence of this dual character, the Chinese Communist Party still follows the policy of unity and struggle and unity through struggle. That is, it endeavours to unite them because of their positive sides and struggle against them because of their negative sides. Both unity and struggle are for the purpose of winning them over to the socialist road by encouraging them to accept peaceful transformation.

In short, the policies of "buying off" the means of production from the national capitalists, of using, restricting and transforming capitalist industry and commerce and of both uniting with and struggling against the national capitalists and attaining unity through struggle are the main contents of the peaceful transformation of capitalist industry and commerce during the transition period in China. These policies have as their aim the gradual transformation of capitalist enterprises into socialist ones through various forms of state capitalism, and the gradual remoulding of the capitalists, through different forms of education, into working people who live by their own labour.

Chapter Four

State Capitalism in the Transition Period

1. STATE CAPITALISM AS A TRANSITIONAL FORM IN THE TRANSFORMATION OF CAPITALISM

State capitalism is a means whereby the state carries out socialist transformation of capitalist industry and commerce and is a transitional form of economy from capitalism to socialism. During the transition period there were, in China's national economy, the state-capitalist sector apart from the state sector, the co-operative sector (these two being socialist in nature), the sector of individual peasants and handicraftsmen and the capitalist sector.

What is state capitalism? It is a type of capitalism connected with the state, and is not an independent economic form. Its character and functions depend upon the political and economic conditions of the entire society. To state it more clearly, they are determined by the nature of the state.

In the world today, there are two kinds of state capitalism under two different systems—state capitalism under the capitalist system and state capitalism under proletarian dictatorship. Because of the fundamental difference between these two political and social systems,

their forms of state capitalism are entirely different in nature and function.

State capitalism under the capitalist system is one directly under the control of the capitalist state. In capitalist society, as a result of the increasing social character in the development of productive forces and the increasing sharpness of competition among the capitalists, the means of production become ever more concentrated in the hands of the big joint-stock companies and trusts. But "no nation would put up with production conducted by trusts, with such a barefaced exploitation of the community by a small band of coupon-clippers. In one way or another, with trusts or without, the official representative of capitalist society, the state, is finally constrained to take over the management of production."¹ Thus, state capitalism came into existence. Especially during the era of imperialism when monopoly capitalists dominate all departments of national economy, it becomes more necessary for them to use state power as their tool. The so-called state capitalism of the capitalist countries is actually state monopoly capitalism.

State capitalism under the capitalist system often comes about through the method of nationalization. But this does not change the nature of capitalist economy at all. "The modern state," Engels pointed out, "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

¹ Engels, *Anti-Duhring*, Foreign Languages Publishing House, Moscow, 1947, p. 412.

it exploit.”¹ If a distinction is to be made between this kind of state capitalism and the ordinary capitalism of private-ownership, the difference is only that the former is not the ownership of one or several capitalists but that of the capitalist class as a whole. For instance, though Britain has “nationalized” some banks, railways, and mines, the result is the expansion of the capitalists’ political power and the securing of more profits for them. This state monopoly capitalism directly utilizes the political instrument of the state to serve it, thereby intensifying its exploitation of the working class. State monopoly capitalism in all imperialist countries not only exploits its own working people more ruthlessly but exploits and plunders more savagely, through export of capital and division of the world market, the peoples in other countries and carries out its imperialist policy of colonization. The concentration of huge state capital by Nazi Germany before the Second World War and the “foreign aid” provided by the U.S. government after this war for the purpose of controlling the economic resources of the backward countries were the means employed by state monopoly capitalism for expansion and colonization.

In the notorious revisionist “Programme of the League of Communists of Yugoslavia,” the Tito group completely distorts this fact by saying that the state apparatus of monopoly capital stands above classes. According to them it does not serve monopoly capital but is fulfilling the task of expropriating it. They even say that state capitalism in the capitalist countries *is* socialism and that monopoly capital is peacefully growing into socialism in the capitalist countries through the form of state capi-

¹ *Ibid.*, p. 414.

talism. Their argument designed to separate state capitalism from the state connected with it, is in essence an attempt to ignore the class character of state power. But this is useless. Facts have long irrefutably proved that state monopoly capitalism in the imperialist countries is a barefaced demonstration of the application of the state apparatus by the monopoly capitalists to obtain high profits. What it brings in its train is not socialism at all but more brutal plunder and oppression of the working people in their own countries and those of the backward countries, poverty, war and disaster.

But state capitalism under proletarian dictatorship is an entirely different matter. Addressing the Third Congress of the Comintern on July 5, 1921, Lenin said:

. . . State capitalism in a society in which power belongs to capital and state capitalism in a proletarian state are two different concepts. 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

What causes this fundamental difference? It is the fundamental change in the nature of state power. In the proletarian countries power is no longer in the hands of the bourgeoisie but in those of the proletariat. The change in the nature of the state brings forth a new concept of state capitalism. What is state capitalism in the proletarian countries? Lenin said:

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

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; it is the advanced section of the workers; it is the vanguard. We are the state.¹

It is clear that in state capitalism in the proletarian countries certain exploitation of the workers by the capitalists exists. It is a type of capitalist economy permitted, supervised and restricted by the working class which controls the main branches of the national economy, a type of capitalist economy which carries on production and business according to the requirements of the state led by the working class.

Why should state capitalism be allowed to exist when the working class already holds the reins of a state which is advancing towards socialism? Lenin explained this problem by the complexity of the economic sectors and the predominance of small commodity economy after the victory of the October Revolution. As we know, capitalism grows spontaneously out of the production and exchange of small commodity economy. As long as there is an extensive small commodity economy, capitalism is inevitable. Lenin said:

Either to try to prohibit entirely, to put the lock on, all development of private, non-state exchange, i.e., trade, i.e., capitalism, which is inevitable amidst millions of small producers. But such a policy would be foolish and suicidal for the party that tried to apply it.²

¹ Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. II, Part 2, p. 644.

² *Ibid.*, pp. 543-4.

The working-class state, however, can not ignore the inevitable development of this capitalism and allow it free scope. What is the way out? Lenin said:

The whole problem — both theoretical and practical — is to find the correct methods of directing the inevitable (to a certain degree and for a certain time) development of capitalism into the channels of state capitalism; to determine what conditions to hedge it round with, how to ensure the transformation of state capitalism into Socialism in the not distant future.¹

Hence, in countries with a backward economy and a predominance of small commodity production the working class, after establishing power, can adopt state capitalism as an intermediate measure in the transition from capitalism to socialism.

State capitalism put into practice in China during the transition period is a transitional form for the transformation of capitalist economy. Through the development of state capitalism from the elementary to advanced forms, capitalist economy will finally be transformed into socialist economy. This is the creative application and development of Marxist-Leninist theory on state capitalism under specific conditions in China.

2. THE CHARACTERISTICS OF STATE CAPITALISM IN CHINA

State capitalism in China has the following characteristics:

¹ *Ibid.*, p. 544.

First, in China we did not use the method of expropriation in dealing with capitalist industry and commerce but adopted the policy of "buying off" together with the policy of use, restriction and transformation. That is to say, state capitalism was a step, a method and a way of transforming capitalist industry and commerce.

State capitalism in China was a type of capitalist economy under the control of state organizations, under the guidance of the socialist economy and the supervision of the workers. In other words, it was a form of co-operation and alliance between the socialist and capitalist sectors of the economy. Embodying the leadership of the socialist sector over the capitalist one, it was a special form of class struggle during the transition period. Through this alliance the state used and restricted capitalist enterprises according to the requirements of socialism, gradually replacing capitalist relations of production with socialist ones.

Secondly, during the transition period, as the capitalist industrial and commercial enterprises still constituted a considerable proportion of the national economy, they had to go through state capitalism in their transition to socialism. Consequently state capitalism enjoyed great development. In the first half of 1956, in industry, it constituted 32 per cent of the gross output value of the country's industry while in commerce (including co-operative commerce organized by individual traders), it constituted 25.24 per cent of the total volume of the retail trade of the purely commercial establishments throughout the country.

Progress in state capitalism was accompanied by the introduction of its varied forms. Private enterprises were rather backward and scattered. Different conditions were

found between different trades and areas and between big and small enterprises. It was necessary, therefore, to adopt different methods to transform them in accordance with their specific conditions and the requirements of the developing national economy. Variety of form was one of the characteristics of state capitalism in China. More will be said about this later.

Thirdly, state capitalism in China, apart from being under the management of the state organizations, the direction of socialist economy and supervision of the workers, was infused with a socialist character in varying degrees since it was a form of co-operation and alliance between the socialist and capitalist sectors of the economy. Such co-operation and connections were more or less close depending upon the specific forms, and were to be found within or outside the enterprises. According to the varying degrees of co-operation between the capitalist and socialist sectors, elementary and advanced forms of state capitalism were introduced. Generally speaking, in its transition to socialism, capitalism went through state capitalism from elementary to advanced forms. With this progress, the socialist elements in state capitalism continuously increased and expanded.

Fourthly, state capitalism was not merely a method for transforming capitalist enterprises. Through its many forms, it also made provision for and remoulded the capitalists. The capitalists' technical knowledge and experience in production and business management were made full use of to serve socialism under the leadership of the Communist Party organizations and the supervision of the workers. At the same time, their political standpoint, ideology and business methods were thereby remoulded.

In short, the functions and aims of state capitalism in China were: (1) To gradually transform capitalist private ownership, replacing it with socialist ownership by the whole people. (2) To gradually raise productivity, making use of the beneficial sides of capitalism to serve socialism. (3) To restrict step by step the capitalists' exploitation, blind production and business management, and place their activities within the orbit of the unified plan of the national economy. (4) To make arrangements for, educate and remould the capitalists and gradually change them into working people living by their own labour.

Comrade Liu Shao-chi said:

The socialist transformation of capitalist industry and commerce by the state will be gradually realized over a relatively long period of time through various forms of state capitalism.¹

In China the socialist transformation of capitalist industry and commerce is carried out step by step with the development of state capitalism from the elementary to advanced forms. Following this development, the capitalist relations of production will be gradually replaced by those of socialism.

¹ Liu Shao-chi, *Report on the Draft Constitution of the People's Republic of China*, Foreign Languages Press, Peking, 1954, p. 29.

Chapter Five

The Elementary Forms of State Capitalism

1. STATE CAPITALISM IN ITS ELEMENTARY FORMS

Because of the demands of the developing national economy and the complexities of capitalist commerce and industry, there were a great variety of elementary forms in state capitalism.

The main elementary forms of state capitalism in industry were as follows:

(1) *Processing*: The socialist sector (mainly the state trading companies) supplied a capitalist factory with raw materials or semi-finished products to process goods according to the required quantity, quality and specifications and within a stated time. The state trading company took all the finished products and paid the capitalist factory a sum for the processing which covered its wages, other expenditures of production, the business tax and a reasonable profit.

(2) *Placing orders*: The socialist sector placed orders with a capitalist factory which delivered goods according to the required quantity, quality and specifications and within a stated time and received the price paid for the goods. If necessary, the state trading company might pay in advance part of the price as a deposit or supply part of the raw materials.

(3) *Purchasing the entire output of private enterprises:* The state, according to the economic needs of society, gave the state trading companies the exclusive right to purchase, on a long-term basis, certain important industrial products at appropriate prices. For the capitalist factories, such purchasing often took the form of processing, but there was a difference. In processing, the capitalist factories, after fulfilling an order, might produce the same goods with their own materials and sell them of their own accord on the market. In the case of the products which were to be purchased exclusively by state enterprises, they were not allowed to sell these themselves.

(4) *Marketing all finished products of private enterprises:* The state trading companies undertook to market all or a part of the finished products of capitalist factories, which were sold to the state. In actual practice this often took the form of, or resembled, processing and placing orders. However, the difference was that the additional products or products in excess of the fixed quota as a result of the improvement in production, in principle, were to be also sold to the state trading companies.

Since these two forms of purchasing and marketing by the state, in actual practice, often took the form of processing or placing orders, they, as often as not, were included in the latter.

The elementary forms of state capitalism in commerce were in the main as follows:

(1) *Private stores acting as retail distributors for the state:* The state trading companies made private retail stores their distributors. These stores paid in cash for the commodities supplied by the state trading companies according to plan and sold them at retail prices set by

the companies, making a profit from the difference between the wholesale and retail prices. The retail distributors could purchase the stock of the same commodities for which they acted as state distributors from the free market.

Likewise, private wholesale stores were made wholesale distributors for the state. The wholesale distributors paid in cash for the commodities supplied by the state trading companies and sold them wholesale according to the state plan and other specific conditions, making a profit from the difference in the prices.

Another form somewhat similar to acting as retail distributors but actually different from it was that the goods concerned were in general less important and might therefore be sold at prices either set or approved by the state trading companies, and the stock might be purchased, with the permission of the state companies, from the free market.

(2) *Private stores acting as commission agents for the state:* A commission agent deposited a certain sum with the state trading company as guarantee and sold the commodities on a commission basis according to the state plan and at the retail prices set by the state trading companies. The commission agent should not purchase the stock of the same commodities from the free market.

Likewise, private wholesale stores were made wholesale commission agents for the state. A wholesale commission agent deposited a sum with the state trading company as guarantee and sold wholesale the commodities on a commission basis according to the state plan and other specific conditions.

Another similar form was the private import and export concerns acting as commission agents for the state

trading companies. They imported, on behalf of the companies, commodities from abroad according to the variety, specifications, quantities and the prices set by the companies and received fixed commissions. They exported commodities on behalf of the companies at the prices set by the latter and received fixed commissions.

The main elementary forms of state capitalism in commerce were the private stores acting as distributors and commission agents for the state.

2. THE DEVELOPMENT OF THE ELEMENTARY FORMS OF STATE CAPITALISM

From the above-mentioned various forms, we can see that whatever the elementary form of state capitalism the capitalist industrial and commercial enterprises took, their production and business operations were already under the leadership of the socialist sector. These private enterprises, however, did not accept the leadership of socialism of their own accord. The prerequisite for the establishment and development of state capitalism was the growing strength of the socialist sector of the economy and the establishment and consolidation of its leading role in the national economy. In other words, building the leadership of the socialist sector over capitalist industry and commerce as well as the development of state capitalism was made possible through a process of struggle between socialism and capitalism.

The period between the founding of the People's Republic of China in 1949 and 1952 was one of economic rehabilitation. In order to repair the serious damages suffered by our national economy under Kuomintang rule, the government, while giving priority to the develop-

ment of the state sector of the economy, enforced the policy of "taking into account both public and private interests and benefiting both labour and capital." Overall arrangements were made for capitalist industrial and commercial enterprises in the allotment of raw materials and the marketing of products. Those old trades and enterprises which had come down from old China and which remained detrimental to the national welfare and the people's livelihood were reorganized or dissolved. Thus, the capitalist enterprises which had been on the verge of collapse before liberation were revived and most of them were expanded to a certain extent. However, the profit-seeking nature of the capitalists had not been fundamentally reformed. With the recovery and development of capitalist industry and commerce to a certain degree, they seized the opportunity when the leadership of the socialist sector in the market had not yet been fully consolidated to carry on speculative activities, such as rush buying or purchasing of certain commodities by illegal means, hoarding and raising prices. Between December 1949 and February 1950, they caused three nation-wide price fluctuations, seriously affecting national construction and the normal order of the people's life. It was under such circumstances that the People's Government began, in the spring of 1950, to combat these speculative activities, strengthening in all respects its control over the market and supply. In March 1950 the People's Government adopted measures to centralize its financial and economic work, i.e., to centralize the national revenue and expenditure, the utilization of materials and resources and the control over currency. From that month on, the market prices became stabilized, bringing to an end the currency inflation that

had lasted twelve years in pre-liberation China. The leadership of the socialist sector of the economy on the market was thus established.

In 1951 when land reform in our countryside was mainly completed, the state embarked upon large-scale capital construction. It was the time when the Chinese people were waging the great struggle of resistance to U.S. aggression and aiding Korea. On the market there was an unprecedented rise in purchasing power. Capitalist industry and commerce enjoyed considerable expansion. The national capitalists had always cherished a strong desire to develop capitalism which was in conflict with the growth of socialist economy in New China. They did not realize that in New China capitalist industry and commerce could develop properly and make legitimate profits only under the leadership of the socialist sector of the economy. This was allowed by the state during the period of economic rehabilitation. Instead, they went so far as to compete with the socialist sector for leadership. They engaged in what became known as "five evils" activities — bribery of government workers, tax evasion, theft of state property, cheating on government contracts and stealing economic information for private speculation — and launched a frenzied attack against the working class. According to investigations made in 450,000 private industrial and commercial enterprises in nine big cities including Peking, Tientsin, Shanghai, Wuhan, Canton and Shenyang, more than 340,000, or over three-fourths of them, engaged in "five evils" activities in varying degrees. To deal with such serious unlawful activities, the Party and the government, in the early part of 1952, carried out a great nation-wide movement against these "five evils," known as the *wu*

fan movement. The movement was a decisive struggle between taking the socialist and capitalist roads. It ended in defeat for the capitalists who were isolated and had to submit themselves to the leadership of the working class. This struggle through which the capitalists' negative sides were completely exposed did not only educate the broad masses of people, but it also educated the bulk of the capitalists themselves. They came to understand that the capitalist road was a blind alley and their only bright future lay in accepting the leadership of the working class and socialist transformation. The *wu fan* movement consolidated the leadership of the socialist sector of economy over the capitalist one.

In 1953 when China began the First Five-Year Plan for national economic construction, a general line for building socialism was popularized among the people. To ensure the successful carrying out of socialist construction and to further the transformation of capitalist industry and commerce, the state adopted two important measures while vigorously developing the socialist sector of the economy:

The first of these was the transformation of private wholesale trade. Wholesale is an important link in commodity exchange. It serves as a bridge between industry, commerce and agriculture as well as between the socialist, capitalist and individual sectors of the national economy. The state must control it before it can successfully implement the plan for national economic construction, guarantee a stable market and strengthen the leadership of the socialist sector over the capitalist and individual sectors of the economy to facilitate their socialist transformation. Hence, the state adopted the policy of gradually replacing private wholesale trade by

state trade. The personnel employed in private wholesale trade were transferred to other economic departments. The proportion of private wholesale trade to the total volume in China was 76.1 per cent in 1950, 65.4 per cent in 1951, 36.3 per cent in 1952, 30.3 per cent in 1953, 10.2 per cent in 1954 and 4.4 per cent in 1955. These figures show that state trade virtually replaced private wholesale trade. The state now controlled this important link in commodity exchange.

The second was the planned centralized purchasing and marketing by the state of those materials and products which greatly affected the national welfare and the people's livelihood. These commodities could only be handled by the state trading companies or the private stores acting as distributors for the state. Only when they were controlled by the state, could the people's security and the needs of national construction be ensured. In 1953, the state began with the centralized purchase and marketing of grain and edible oil, and in 1954 extended this policy to cotton and cotton cloth. Thus, a radical change took place in the market.

The elementary forms of state capitalism in our country were developing beside the growing strength of the socialist sector of the economy the leading position of which was being consolidated.

In industry, soon after the founding of the People's Republic, the state, with the aim of developing production and the economy, began to supply the private firms with raw materials for processing or place orders with them for manufactured goods, thereby establishing the first contacts between the socialist sector and capitalist industry. With the further development of the national economy and growth of the socialist sector, such forms

of state capitalism rapidly expanded. The proportion of their output value to the gross output value of capitalist industry rose continuously. It was 12 per cent in 1949, 29 per cent in 1950, 43 per cent in 1951, 56 per cent in 1952, 61.8 per cent in 1953, 78.5 per cent in 1954 and 81.7 per cent in 1955. This shows that by 1955 the value of industrial products both produced and marketed by private enterprises on their own only constituted 18.3 per cent of the gross output value of capitalist industry. Of this percentage a big portion was for processing, machine-repairing, packing and wrapping and other services for other private factories, taking raw materials from the state for processing or orders for manufacturing goods. It could be said then that the elementary forms of state capitalism already dominated the capitalist industrial production.

In commerce, since the state adopted the policy of gradually replacing private wholesale trade by socialist trade, state capitalism in commerce mainly concerned retail trade, and developed a little later as compared with that in industry. In 1952, state-capitalist commerce only constituted 0.2 per cent of the total volume of retail trade of all the purely commercial organs throughout the country. Only after the state, by means of supplying the capitalist enterprises with raw materials for processing and placing orders with them for manufacturing goods, had controlled the main industrial products, carried out the centralized purchase and marketing of grain, edible oil, cotton and cotton cloth and replaced the private wholesale trade by state trade, did state-capitalist commerce develop rapidly. Taking the volume of retail trade done by the state-capitalist commerce in 1952 as 100, the figures were: 210 in 1953, 4,700 in 1954 and 13,100 in 1955.

By then, all capitalist commerce had practically been directed into the channels of state capitalism.

Apart from capitalist commercial enterprises, there existed a vast number of individual traders of all kinds. Different policies were adopted by the state towards them. The principal way was to guide them in organizing co-operatives of collective ownership. But because a large section of individual traders were closely connected with capitalist commerce in their business operations, in order not to affect and disrupt their business during the socialist transformation, most of these traders were directed to accept the forms of state capitalism.

3. THE FUNCTIONS OF THE ELEMENTARY FORMS OF STATE CAPITALISM

The establishment and development of the elementary forms of state capitalism symbolized the establishment and development of the alliance between the socialist and capitalist sectors of national economy. In other words, capitalist industry and commerce began to be directed into the channels of socialist transformation. True, in the elementary forms, the character of the enterprises was not changed fundamentally. They still belonged to the capitalists and were still run in the capitalist way. Nevertheless, through the elementary forms of state capitalism, an alliance between the socialist and capitalist sectors was set up outside the enterprises. This alliance was chiefly expressed in the form of contracts between public and private enterprises, such as the contracts for processing, placing orders, marketing products, making private stores distributors or commission agents, and so on. These contracts were different from the ordinary

business contracts. They put into effect the leadership of the socialist sector over the capitalist sector. Through them, the socialist sector guided the production and business operations of the capitalist sector.

After the capitalist enterprises had assumed the elementary forms of state capitalism, they became more useful to the state in implementing its policy of the use, restriction and transformation towards them — more useful as compared with the time when their production and business were operated entirely in the capitalist way. The functions of the elementary forms of state capitalism were mainly as follows:

First, in the forms of the state placing orders with private industrial enterprises for processing and manufacturing goods, the assortment, quantity, quality, specifications, and time of delivery were all prescribed by the state trading companies. The materials were usually supplied and their products marketed by the companies. The same thing applied to commerce. When the private traders acted as retail distributors or commission agents for the state, the assortment, quantity and the scope of the transaction handled by them were also prescribed by the state trading companies. State commerce directed the production and business operations of capitalist industry and commerce on the basis of the unified state plan. The channelling of capitalist enterprises into the elementary forms of state capitalism, therefore, greatly reduced blindness and anarchy in their production and business and made them gradually meet the demands of the plan for the development of the national economy. Thus, this part of the social productive forces could be better placed at the service of socialist construction.

Secondly, in the forms of the state placing orders with the private enterprises for processing and manufacturing goods and of the private traders acting as distributors and commission agents, their income was derived from the price of the processing or the manufactured products, the difference between the wholesale and retail prices or commission. The amount of income was fixed in a fair and reasonable way by the state trading companies after carefully studying and checking the cost of production and business operations of the capitalist enterprises and after consulting the capitalists. Thus, reasonable profits were ensured while the unreasonable, exorbitant profits of certain enterprises were prevented. Moreover, the profits were fixed according to the principle of "encouraging the advanced and pushing forward the backward," and calculated on the basis of the average profits accruing from normal and proper business operations. That is to say, the lower the production cost and the better the quality of products, the higher were the profits, and vice versa. Thus, the capitalists were encouraged to actively improve their production and business operations.

Thirdly, in the elementary forms of state capitalism, the profits of the capitalist enterprises were distributed in four parts: the income tax to the state treasury, the general reserve fund for the enterprise, the welfare fund and rewards for the workers and other employees and the dividends and bonuses for the capitalists. This was a concrete form of "buying off" the capitalists in this stage of socialist transformation. The capitalists received about one quarter of the total profits. As for the other three parts, the income tax to the state went into socialist accumulation; the welfare fund and rewards were for the

purpose of improving the workers' living standards; the general reserve fund, though turning into the capitalists' capital, was earmarked for expanding and improving the production. Under such a form of distribution the capitalists' exploitation of the working class was limited. With the gradual setting up and strengthening of the trade union organizations in the enterprises, the workers' supervision over the capitalists increased.

Facts testified that when the capitalist industrial and commercial enterprises had assumed the various elementary forms of state capitalism, their production and business operations improved in varying degrees, labour productivity was generally raised and their relations with the socialist sector became closer daily. Conditions were created for carrying the transformation of capitalist industry and commerce a step further.

4. THE DEVELOPMENT OF STATE CAPITALISM FROM THE ELEMENTARY TO ADVANCED FORM

In the elementary forms capitalist industry and commerce became an auxiliary force to the socialist sector of the economy during the rehabilitation and development of our national economy. Nevertheless, these were only transitional forms. They did not change the capitalist relations of production; nor could they ever completely resolve the various contradictions of capitalism itself and those between the capitalist and socialist sectors. Especially when the social productive forces were further developed, the national economic planning was daily strengthened and the people's socialist consciousness further raised, greater demands were necessarily made on the socialist transformation of capitalist industry and

commerce which could not remain in its elementary forms.

The reason why the development of socialist construction inevitably raised further demands for the transformation of capitalist industry and commerce might be discussed from two aspects:

First, the elementary forms of state capitalism could not completely resolve the contradictions between the capitalist relations of production and the development of the productive forces. To be sure, these forms helped capitalist production and management to meet the demands of national construction and the needs of the people within a certain period and to a certain degree and restricted the capitalist exploitation to a certain extent. Nonetheless, the enterprises still belonged to the capitalists and were managed in the capitalist way, which limited improvement in their production and management. According to the system of distributing the profits in four parts, the profits to the capitalists depended on the total profits of the enterprises. The more profits they made, the more profits the capitalists received. This meant that the rise of labour productivity was beneficial to the national economic construction but at the same time it brought greater profits to the capitalists. The masses of workers in the capitalist enterprises thereby restrained from giving full play to their working enthusiasm. Some law-breaking capitalists resorted to various means in their pursuit of higher profits at the expense of the state, such as doing shoddy work, using inferior materials or making up false cost figures. With the steep rise in national construction and the needs of the people, it became more urgent to change the capitalist relations of production.

Secondly, the elementary forms could not completely resolve the contradictions between the socialist and capitalist sectors. The socialist sector established connections and co-operation with the capitalist sector outside the enterprises and controlled the supply and marketing of the capitalist sector and indirectly brought their production and management into the state plan. But because the capitalist ownership of the enterprises was not changed, it was impossible for the state to reform the systems within the capitalist enterprises entirely according to the requirements of the developing planned socialist sector of the economy. It was also impossible for the state to make readjustments and undertake reorganization of production and management between the different capitalist enterprises, different trades and different areas and to change their former irrational distribution in order to make them conform fully with the needs of economic development. It was precisely for this reason that capitalist enterprises in such elementary forms of state capitalism often failed to fulfil their task under the state plan with regard to the quality, quantity and time of delivery of the goods to be produced. Therefore, when planning the development of the national economy was more strictly enforced and the needs of the people grew, the demand inevitably arose that the capitalist production and management be directly embraced in the state plan.

These two aspects showed the necessity and importance of the development of the elementary forms of state capitalism into advanced ones. In the meantime, these elementary forms had indirectly drawn capitalist production and management into the state plan; the connections between capitalist industry and capitalist commerce

and those between them and the individual sector were replaced by connections between them and the socialist sector. The dependence of the capitalist sector on the socialist one reached such a stage that without the latter's leadership the former could hardly carry on its production and business operations. Thus, the conditions for its advance to the advanced forms of state capitalism were prepared.

Chapter Six

The Advanced Form of State Capitalism

1. THE ADVANCED FORM OF STATE CAPITALISM — THE JOINT STATE-PRIVATE ENTERPRISE

The advanced form of state capitalism in China is called a joint state-private enterprise. This is the principal way through which the transition of capitalist industry and commerce into socialist enterprises is being effected.

A joint state-private enterprise is one in which the state invests and to which it assigns personnel to share in management with the capitalists.

In such an enterprise, there are state shares (public shares) and capitalists' shares (private shares); personnel are appointed by the state (to represent the state shares) and capitalists or their agents (represent the private shares). But the relationship between these two groups is not the same as that in a capitalist joint-stock company. It cannot be one of ordinary partnership. It is one between the leader and the led. The state representatives combine with the masses of workers in the enterprise to form the socialist force in it. These representatives are in a leading position in the joint enterprise, and this is provided for in the laws of the state. The characteristics of the joint enterprise distinguish it from all elementary

forms of state capitalism. In the latter, the co-operation and connections between the socialist and capitalist sectors of the economy generally exist outside the enterprises, while in the former, they exist within them. In the joint enterprise the socialist sector has placed the capitalist sector under its direct supervision and control.

There were two stages in the development of joint enterprises, namely, joint state-private operation of individual enterprises and joint state-private operation by whole trades.

2. JOINT STATE-PRIVATE OPERATION OF INDIVIDUAL ENTERPRISES

After the establishment of the People's Republic of China, some capitalist enterprises had in their possession certain properties which belonged to bureaucrat-capital or to the enemy country of Japan and its puppets. These properties were nationalized and converted into shares of the state. By virtue of this, the state assigned personnel to participate in the management of such firms and they became the first group to come under joint state-private operation.

After that, joint operation was extensively applied to the private banks. In 1952 practically all the private banks and the native banks in the country were brought under joint operation, except a few owned by overseas Chinese. In industry, communications and transport, a number of large establishments successively took the same step. As the joint state-private enterprises showed ever more obviously their advantage over the capitalist ones, more and more capitalists requested that their enterprises be changed over to joint operation. In

the meantime, as required by the development of the national economy, in 1954 the state began to make plans for extending the joint operation. Consequently, the number of joint enterprises rapidly increased. By the end of that year, there were 1,746, and by the end of 1955, 3,193.

Up to that time, the change-over to joint operation had been accomplished individually, enterprise by enterprise, and confined to those large establishments the activities of which were vital to the national economy and people's daily needs. They were few in number but accounted for a large proportion of the gross output value of all capitalist industrial establishments.

The percentage figures of the output value of joint state-private industrial enterprises in the gross output value of all such joint enterprises and capitalist industrial enterprises not yet changed over were as follows:

1949	1950	1951	1952	1953	1954	1955
3.1	5.4	7.4	11.5	13.3	33.0	49.7

In communications and transport, the percentage figures of the joint state-private enterprises in the total volume of the steamship and tugboat freight transport of such enterprises and the capitalist enterprises were: 17.1 in 1952, 34.5 in 1953, 71.6 in 1954 and 94.6 in 1955. The percentage figures of the joint state-private enterprises in the total volume of lorry freight transport of such enterprises and the capitalist enterprises were: 1.2 in 1952, 2.1 in 1953, 6.6 in 1954 and 18.3 in 1955.

In commercial, catering, and personal service establishments, however, not many were brought under joint operation before 1955, and at the end of 1954, the number

was only 137, mainly the large ones engaging in processing or other business of a technical nature.

Why were there increasing numbers of capitalists who petitioned of their own free will to have their enterprises changed over to joint state-private operation? The answer lay in the fact that the superiority of many joint state-private enterprises became more and more obvious in their tremendous development. For example, the Shanghai Steel Works was changed over in 1950. Taking the value of its output in that year as 100, it was 263 in 1951, 391 in 1952, 601 in 1953, and 871 in 1954. The Yungli Chemicals Works in Tientsin started joint operation in 1952. Within two years, the value of its output increased by 80 per cent. A survey of 43 establishments in Shanghai which became jointly operated before 1953 showed that their labour productivity increased in 1954 by 46 per cent on the average as compared with 1953. The statistics of 64 factories in various parts of China which had gone over to joint operation earlier than others revealed that their profits were increasing. Taking their profit in 1950 as 100, it was 113 in 1951, 228 in 1952, and 306 in 1953. Still another example was the privately-owned Minsheng Steamship Company, the largest of its kind in China. Prior to its change-over to joint operation in September 1952, the company was overstaffed and its operation wasteful. In the few years before 1952, accidents to shipping happened on the average once every two days, and one life was lost every five days. The deficit incurred reached five million yuan per year. In 1953, after the change-over, the volume of freight it handled reached 860,000 tons, greatly exceeding the highest record of 380,000 tons in the company's history, which was made in 1947. In the meantime, the opera-

tional cost was reduced by 30 per cent and the freightage by 40 per cent, while the profit was 1,680,000 yuan in the first four months of joint operation, 4,490,000 yuan in the year 1953, and more than 10,000,000 yuan in 1954. The Huahsin Textile Mill in Tangshan expanded in the five years after its conversion to joint operation on a larger scale than it did in the previous thirty years. The advantages shown by these numerous cases of joint operation exerted a great influence on the capitalists' thinking. More and more of them realized that joint operation was the only way through which their own enterprises might be fully developed and as individuals they might contribute more to the country. Hence the increasing number of their applications for the change-over.

Why was a joint state-private enterprise far superior to a capitalist one? Comparing it with the elementary forms of state capitalism, this advanced form was better able to resolve the contradictions within the capitalist enterprises as well as between them and the socialist sector of the national economy. It heightened the enthusiasm of the masses of workers in production and management and greatly changed the capitalist character of the private enterprises.

In the first place, once a private enterprise had changed over to joint state-private operation, it was no longer wholly owned by the capitalists. Instead, it had come under the co-ownership of the state and the capitalists, i.e., capitalist ownership existing side by side with socialist ownership by the whole people. A more important point was the leading position of the socialist element in such enterprises. This leadership was attributed to the character of the state, the dominant position of the social-

ist sector over the capitalist sector of the economy and the unity of the state representatives with the workers in the enterprise. The leadership of the state representatives embodied direction by the state. Of course, this did not mean the exclusion of capitalists from the leading positions in various enterprises. In fact, as a rule, they retained the leading positions which they had held prior to the change-over, only, as a prerequisite, they then had to follow the direction of the state. Thus, a joint state-private enterprise was already one under the direct leadership of the state.

In the second place, since the state had already established its direct leadership in such an enterprise through its representatives, it was possible to control not only the supply of raw materials and marketing of products as in the case of the various elementary forms of state capitalism, but also its entire process of production and circulation. Consequently, it was possible to put the production and operation of the enterprise directly under the state plan and to reform its management and other work systems so as to conform to the demands of planned production. By fully complying with the state plan, the joint enterprises further helped to resolve the contradictions between the planned development of national economy and the anarchy in capitalist production.

In the third place, in the state-private enterprises, great changes had occurred in the position of the workers. As the enterprise was under the co-ownership of the state and the capitalists, the workers, though still being exploited by the capitalists, participated in the management. They worked for the state, directly contributing to socialist accumulation. Such a change in position raised their enthusiasm for work, which was one of the im-

portant reasons for the uninterrupted rise of labour productivity in the joint state-private enterprises.

Finally, this form of organization was exceedingly useful for educating and remoulding the capitalists. Their dominant position in the enterprise had changed, as the leadership was in the hands of the state representatives. True, they were still part owners, but they had to follow the direct guidance of the state. With the strengthening of state leadership and the rise of the workers' enthusiasm, the production and operation of the enterprise kept on developing and improving. This exerted great influence in convincing the capitalists of the superiority of the socialist system. In the meantime, under the guidance of the state representatives, they had ample opportunity to learn socialist management methods, and this also helped to remould their political outlook in the interest of socialism.

It can be seen, therefore, that while such a joint state-private enterprise was not yet a socialist state enterprise, it was distinctly different from a capitalist one. There were certain socialist elements within its organization. It was already semi-socialist in nature.

Clearly, the advanced form of state capitalism was much superior to the various elementary forms. However, when private enterprises changed over to joint operation one by one, the advantages could not be fully developed. The following contradictions were still in evidence:

First, as in the elementary forms of state capitalism, the profit of the joint state-private enterprises in this stage was divided into four parts. But the difference was that the part of the profit for the dividends and bonuses was again divided proportionately between the state and private shares. The income from the state shares was

the revenue of the state, while that from the private shares was the profit of the capitalists. Thus, the portion received by the capitalists became smaller in terms of its ratio to the total profit of the enterprise. However, due to the steady rise of labour productivity and the corresponding rise of profit after the change-over to joint operation, the capitalists were actually drawing an increasing amount in dividends the bonuses. The proportion of their profit to their capital, i.e., profit rate, was rising. Such circumstances inevitably ran counter to the state's efforts to expand production and accumulate funds for construction, and at the same time adversely effected the further rise of enthusiasm among the workers.

Secondly, notwithstanding the fact that direct leadership of the state in the joint state-private enterprises had been established, the simultaneous existence of two ownership systems, i.e., the capitalist ownership and the socialist ownership by the whole people, could not but give rise to contradictions between them and the state. This was particularly so in the matters involving management policy and amount of the profit of the enterprise, which directly concerned the interest of the capitalists. Thus, the realization and thorough implementation of socialist principles in management sometimes encountered obstructions from them. In some cases, unscrupulous capitalists would, when there was an opportunity, engage in speculative and other illegal activities, using the name of the joint state-private operation to seek high profits, which brought harmful effects to socialist construction and the life of the people.

Thirdly, at this stage of development, the enterprises which had changed over were generally the large ones. The need of the country and the conditions existing at

that time rendered it necessary to begin the change-over with them. After their change-over, however, as their management improved and labour productivity rose, the contradictions between them and those capitalist enterprises which had not yet changed over increased. This was not to the advantage of the state's over-all plan for capitalist industry and commerce. The state could not proceed to make over-all readjustments and reallocations of equipment, technical facilities, labour power and funds between different areas, trades, and enterprises according to the needs of the plan for the development of the national economy. Consequently it was impossible to further develop the productive forces in this sector.

Therefore, the functions of this advanced form of state capitalism suffered from certain limitations at this stage. Not until joint state-private operation was extended to whole trades and the change-over was combined with the provision for payment of a fixed rate of interest to the capitalists were the advantages of the joint enterprise fully demonstrated.

3. THE UPSURGE IN THE MOVEMENT FOR JOINT STATE-PRIVATE OPERATION BY WHOLE TRADES

At the end of 1955, an upsurge of socialist transformation occurred throughout the country. It first appeared in agricultural co-operation. Practically all the individual peasant households in the country joined the agricultural co-ops. Under such impact, a movement for joint state-private operation of capitalist industry and commerce by whole trades was soon in full swing. The capitalists paraded in the streets, beating cymbals and drums, while sending in their petitions for the change-over of their

enterprises to state-private operation. In a few months, all capitalist enterprises were virtually changed over, trade by trade. According to statistics at the end of 1956, 99 per cent of the total number of capitalist industrial enterprises as of the beginning of the year came under joint operation, involving 98.9 per cent of their employees, and 99.6 per cent of their gross output value. In commerce, 400,000 private establishments were converted in the same period. There were also about 1,440,000 small ones organized into co-op stores. This upswing in the joint state-private operation by whole trades marked a significant and decisive step in the peaceful transformation of capitalist industry and commerce.

This upsurge was not an accidental development, but the result of achievements made in the transformation of capitalist industry and commerce in the preceding six years and a response to the demand for a more developed national economy.

That the capitalists paraded, with the beating of cymbals and drums, while sending in their petitions for the change-over of their enterprises might appear rather strange, yet it was precisely a vivid manifestation of the great successes achieved in transforming capitalist enterprises in the interim years since the establishment of the People's Republic. By 1955 all the capitalist industrial and commercial establishments had been channelled into various elementary forms of state capitalism. The supply of raw materials and merchandise, the categories, quantities and specifications of the products, marketing and prices of commodities, etc. had all been placed under the effective control of the powerful socialist sector. By this time capitalist enterprises in China, formerly incapable of standing on their own, were even more so with-

out the leadership of the socialist sector of the economy. In fact, some private firms were in such a bad position that the socialist enterprises had to give them a part of their own production to keep these firms in business so as to prepare them for further transformation. This situation demanded that the only way out for these private enterprises was to undergo further socialist transformation. As the number of joint state-private enterprises increased, their superiority became more evident. In the light of such cogent facts and the urge of the workers in their shops and factories, more and more of the capitalists came to realize that in their petition for joint operation lay a bright future for their enterprises. All this prepared conditions for the change-over by the whole trades. And on top of this, the upsurge of agricultural co-operation in 1955 which transformed the individual peasant economy into a socialist collective economy finally blocked the road for the development of capitalism in the vast countryside. The relative strength of socialism and capitalism changed fundamentally. The conditions for the realization of joint operation by whole trades were now fully ripe.

The upsurge in joint operation by whole trades was not only a corollary in the progress of transforming capitalist enterprises. It was also necessitated by the development of the national economy as a whole. As far as socialist construction was concerned, since planned economy was making big strides, capitalist enterprises obviously could not have kept up with the situation if they had retained the elementary forms of state capitalism. The development of the national economy and the increasing needs of the people required the complete release of this section of the productive forces in order

to better serve the interest of construction and the people. Thus, a radical change in capitalist relations of production was called for to set free the productive forces from their shackles. It was also necessary to readjust and reorganize capitalist enterprises according to the unified plan of the state. The unreasonable conditions which had long existed—irrational geographical distribution, chaotic management and operation, high costs, inferior quality, and so on—had to be completely changed.

As far as socialist transformation was concerned, during the transition period there was a close connection between the socialist transformation of agriculture and handicrafts and that of capitalist industry and commerce. When agriculture and handicrafts changed from a backward sector of individual ownership to a progressive socialist one, an adverse effect would have been produced upon them if capitalist industry and commerce had lagged behind. A series of social and economic contradictions would have followed. All this indicated that the socialist transformation of capitalist enterprises had to be brought to a new phase so as to keep pace with the progress of socialist construction and the socialist transformation of the country as a whole.

This upsurge in joint state-private operation by whole trades was, therefore, a necessary outcome of the progress made in the socialist transformation of private enterprises, and at the same time a measure required by the urgent needs of socialist construction in our country.

After this change-over was realized, the state made the following important provisions which are still current.

(1) A fixed rate of interest was paid by the state for the total investment of the capitalists in the joint state-private enterprises. Irrespective of locality and trade,

the interest was fixed at a rate of 5 per cent per annum. In the meantime, the state declared that this system would not be changed for seven years starting from 1956. This was the continuation of the policy of "buying off" the capitalists after the change-over by whole trades, only the form of payment was changed. The fixed rate of interest took the place of the distribution of profit according to definite proportions. In all the joint state-private enterprises, the total investment of the capitalists amounted to about 2,418 million yuan, of which 1,693 million yuan were in industry; 586 million yuan in commercial and catering trades; 102 million yuan in communications and transport; and 36 million yuan in personal services. Under the fixed interest system, the annual outlay from the state treasury was over 120 million yuan. There were 1,140,000 recipients in all.

(2) The 710,000 capitalists and their 100,000 agents, who held various positions in the former capitalist enterprises, were kept in employment. The state first took them over altogether and then rearranged their work according to their ability, while giving them all due consideration. They were generally placed in positions not lower than they occupied before. Not a few persons with wide connections were taken into government service. Even the unreasonably high salaries enjoyed by many of the capitalists and agents in these enterprises were continued after the change-over. Actually, these measures were a part of the "buying off" policy.

(3) Specialized trade corporations in the cities where industrial and commercial establishments were found in great numbers were set up, so as to provide centralized leadership and management for the joint enterprises of the trades concerned.

In a short space of time large numbers of capitalist enterprises were placed under joint state-private operation. Thanks to the good groundwork that had been laid in the transformation of capitalist enterprises and the timely correct policies of the state as described above, the production and operation of these enterprises suffered no loss or disturbance in transition. Instead, improvement was soon obvious. The gross industrial output value of the joint state-private enterprises in the country increased by 32 per cent in the first year (1956) of the change-over. It did not take long for the superiority of the joint operation by whole trades to manifest itself.

4. THE DECISIVE VICTORY OF THE REVOLUTION ON THE ECONOMIC FRONT

The change-over to joint operation by whole trades was a victory of decisive significance in the transformation of capitalist enterprises, not only because of its speed and magnitude but, what was more important, because of the basic changes brought about in the capitalist relations of production.

The changes are as follows:

First, the character of the enterprises has changed. Although the capitalists still retain their shares in the enterprises, they can only draw interest on their investments at 5 per cent per annum, regardless of the amount of profit or loss of the business. The means of production in the joint enterprises are completely at the disposal of the state. In other words, ownership of these properties has been severed from the right to use them. This severance of the two rights is entirely different from the same phenomena under capitalism, because in our case,

the capitalists turned over their means of production to the state for its disposal. As far as the state is concerned, these means of production have already become a part of the socialist means of production. As to the capitalists, they are only to receive their fixed interest for a definite period, but in no case can they repossess these means of production. Thus, a basic change has occurred in the capitalist ownership of the means of production. Henceforth, whatever ownership means to the capitalists is only expressed in the matter of fixed interest, as all other rights conventionally pertaining to ownership, such as the right to use the means of production and the right to operate and control the enterprise, have all been transferred to the state.

The effects of such a change are: (1) The shackles which capitalist relations of production imposed on the productive forces are basically broken. Although the interest which the capitalists have received since the change-over is still a form of exploitation, it is limited to a fixed amount which has no relation whatsoever to the amount of profit realized by the enterprise. Therefore, as the productive forces expand and labour productivity rises, there will be no corresponding increase of exploitation. Hence, there is an unlimited possibility for the expansion of this part of the productive forces.

(2) The contradictions between the planned development of the national economy and the blind and anarchic conditions in capitalist production are completely resolved. Since the management and operation of the enterprises is now completely in the hands of the state and their means of production have become a part of the socialist sector, the state can now set up new management systems within the enterprises according to socialist principles.

More than this, the state can, in a unified manner, reallocate production equipment and labour power between different enterprises, trades, and regions according to the requirements of the planned economy.

Secondly, due to the change in the character of the enterprises, the position of the workers in them has also changed. In other words, they are no longer hired labourers. It is true, a small portion of the wealth created by the workers is taken by the capitalists without compensation in the form of fixed interest, i.e., exploitation still exists. But since the enterprises are basically socialist in character, the fixed interest is created out of the production organized by the state and distributed to the capitalists according to the policy of "buying off" the bourgeoisie. Therefore, the workers maintain a direct relationship with the state when they engage in production. They work in productive organizations of the state and not in those of the capitalists. Their status in the enterprises is that of true masters. They no longer sell their labour to the capitalists as a commodity.

Thirdly, the position of the capitalists in the enterprises has likewise changed significantly. Although the capitalists' exploitation of the workers still exists, they no longer work in the enterprises for the sake of exploitation. This is because now their exploitation has no relation to the profit and loss of the enterprises, and because the capitalists have turned over the management to the state. They are working as employees in various positions assigned to them by the state, and not exercising authority as capitalists. They may manage and operate the firm, but their activities are no longer for the purpose of exploitation. According to the needs of the state, they work for socialism. Such a change gives the capitalists

a dual status in the enterprises. While they are still receiving fixed interest, thus maintaining exploitation, their status as capitalists remains, but at the same time, by the nature of the duties they now perform, they also have the status of government workers. For this reason, their relationship with the workers is now also a dual one, namely, one between people of different classes but also one between colleagues. Such a profound change in the position of the capitalists marks an important step in their transformation from capitalists to labouring people.

From the changes described above, it can be seen that the advantages of joint state-private operation by whole trades surpass those of all other forms of state capitalism. It is therefore the most advanced form under which the capitalist relations of production have been in the main replaced by socialist ones. Such joint enterprises are basically socialist in character. Thus, the realization of joint operation by whole trades is a step of decisive significance in completing the socialist transformation of capitalist industry and commerce. Together with the realization of co-operation in agriculture and handicrafts, it brings to virtual conclusion the transformation of all means of production from private ownership to socialist ownership in the transition period. This is a decisive victory for the socialist revolution on the economic front;

Chapter Seven

The Education and Remoulding of the National Capitalists

1. THE TRANSFORMATION OF ENTERPRISES AND THE REMOULDING OF INDIVIDUAL CAPITALISTS

In China, the socialist transformation of capitalist industry and commerce had a twofold purpose. It was to transform capitalist enterprises step by step into socialist ones owned by the whole people, and also to remould the capitalists gradually from exploiters into working people living by their own labour. These two phases were closely co-ordinated and are still in progress.

The purpose of the socialist revolution is to eliminate the system of exploitation and the exploiting class. The elimination of the exploiting class does not mean the physical extermination of persons who exploit others but the elimination of the system of exploitation of man by man and the class distinctions it creates between people. To do this, the following steps are necessary: (1) The economic basis of the exploiting class has to be eliminated so that the capitalists will gradually learn to live by their own labour and so that the distinction in economic status between them and the working people will be removed. (2) As an exploiting class, the capitalists do not have only

an economic basis of their own, but they have also their own political views and ideology, which have existed over a long period, based on capitalist economy which run counter to socialism. The inherent nature of the capitalists, marked by selfishness and an eager desire to seek profits, is fundamentally different from the industrious and unselfish character of the working people. Therefore, in order to eliminate the class distinction, it is not enough to eliminate the economic basis of the exploiting class, but the superstructure built upon it as well.

To build up a socialist society in which everybody will enjoy equal opportunity, it is necessary to transform the capitalist enterprises and change the capitalists' private ownership of the means of production and at the same time remould them through changing their economic status and giving them political and ideological education so that they will gradually become working people.

In Chinese society, leaving aside the bureaucrat-capitalists, the national capitalists constitute the smallest class. They were very weak-kneed politically and economically. However, they (including their intellectuals) secured a modern education at a relatively early date. They were obliged, in the past, to struggle for their existence under the oppression of imperialism, the feudal forces and the bureaucrat-capitalists. Most of them actually took part in the operation of their enterprises, and thus acquired some knowledge of production technique and the management of modern business. They were a class with a comparatively rich knowledge of modern culture and they still have a large number of intellectuals and experts among them. Therefore, under the social conditions obtaining in China, apart from remoulding the capitalists to achieve the goal of the socialist revolution, their

technical and general knowledge should be utilized to serve the cause of socialism.

In the course of peaceful transformation, the remoulding of these people was co-ordinated with the transformation of the capitalist enterprises, which two processes influenced and accelerated each other. Capitalist enterprises formed the material basis of bourgeois ideology and the economic status of the capitalists changed with the changes made in their enterprises. Hence, the transformation of capitalist enterprises was the prerequisite for the capitalists' remoulding; it not being possible to carry out the latter process effectively without the former. Also, if the transformation had been confined to capitalist enterprises and the remoulding of the capitalists overlooked, it would have been impossible to let the former owners play an active role in the course of accepting socialist remoulding and turn them into useful people. Also at the time, it would have retarded the transformation of their capitalist enterprises. Therefore, only when the remoulding of the capitalists, politically and ideologically, was begun simultaneously could the transformation of their enterprises be facilitated and the beneficial role of these people be brought into play during the process. Premier Chou En-lai pointed out in 1954:

The transformation of capitalist industry and commerce is a process involving both struggle and education. . . . In this process the transformation of capitalist enterprises and re-education of capitalists should be combined. This means: on the one hand, we have to transform capitalist enterprises finally into socialist enterprises, and, on the other, we have to remould the outlook of capitalists and their agents, so as to make

them, as far as possible, play a positive and beneficial role in the process of socialist transformation.¹

Thus, we can see that the remoulding of the capitalists was an extremely important step in the course of the peaceful transformation of capitalist industry and commerce. Through such remoulding the resistance of the capitalists to socialist transformation was reduced, as a moribund social force, and a negative factor was turned into a positive one, thus facilitating peaceful transformation.

What methods were used to remould them? Obviously, since it was a policy of peaceful transformation rather than forcible expropriation, the method adopted towards the national capitalists was that of persuasion and education, except for the extreme few who opposed and sabotaged the transformation and against whom, consequently, necessary administrative and legal measures had to be applied.

This method of persuasion and education was one of reasoning, of setting examples and of criticism and self-criticism. In this respect, the most important thing was practical education. From the founding of the Chinese People's Republic to the conversion of capitalist industry and commerce into joint state-private enterprises by whole trades in 1956, the process of use, restriction and transformation of capitalist industry and commerce was also a process of practical education for the capitalists. In the early days of the People's Republic, in readjusting capitalist industry and commerce several times the state acted on the principle of "unified planning and over-all ar-

¹ Chou En-lai, *Report on the Work of the Government*, Foreign Languages Press, Peking, 1954, p. 22.

rangements." While giving priority to expanding the state sector of the national economy, it carried out the policy of "taking into account both public and private interests and benefiting both labour and capital," thus helping capitalist industry and commerce to overcome difficulties and utilizing to the full the positive role they played in benefiting the national welfare and the people. This constituted an important practical education. In 1950 through its control of the market, the state dealt a blow to the capitalists' speculative and other law-breaking activities. Necessary restrictions were from time to time imposed on the capitalist sector of the economy in regard to its scope of activity, taxation, market prices, the working conditions of the workers, etc. This was an important practical education too. Through all this, the illegal activities of the capitalists were curbed with the result that the market was stabilized and state capitalism started to develop. The *wu fan* movement (the movement against the five evils discussed in Chapter Five) launched in 1952 was a more important object lesson. This movement completely smashed the capitalists' frenzied attack on the working class, exposed their rotten profit-seeking nature and isolated them from the rest of society in the eyes of the broad masses of the people. This made an increasing number of capitalists realize that acceptance of socialist transformation was the general direction in which the wind was blowing. The number of progressives who were ready to accept socialist transformation grew gradually. Various and extensive forms of state capitalism developed rapidly following the *wu fan* movement. In 1954 the state began to expand the work of joint state-private operation according to plan. The advantages shown by the joint enterprises vividly contrasted

the superiority of socialism with the backwardness of capitalism. This, too, served to educate the capitalists in a most practical way. In the meantime the state always followed a policy of dealing with each case on its own merits. It welcomed those capitalists who actively accepted socialist transformation. To those who hesitated or had doubts, it patiently explained and acquainted them with facts and waited for them to change. To those who put up resistance, it waged such struggles as were necessary, the aim still being to remould them. This again was an important practical education. In addition, the state, in its work of persuasion and education, arranged forums, discussions and classes for the capitalists to study political theories, current events, the Party and government policies, so that they might gradually learn to know the laws of social development and be masters of their own destiny. Step by step, they were guided in developing criticism and self-criticism among themselves and integrating theoretical education with practical experience. The purpose of all these methods was to unite the majority of the capitalists and isolate the handful who resisted socialist transformation, so that the majority would gradually be remoulded into working people.

Simultaneously with the remoulding of the capitalists, educational work was conducted among their families, including their children, who totalled several million. Since the founding of New China, great changes have taken place in the homes of the capitalists along with the tremendous progress of socialist construction in the country. Most of their children and other dependents have taken part in national construction or have studied in schools. Particularly, the numerous young students, educated and fostered by the Communist Party, have gradually en-

hanced their political understanding, shaken off the old influence of their capitalist families and become useful people in building socialism. Consequently, they made it clear to their families that they would not be capitalists and would accept no stock shares or other inheritances. This made many capitalists see that, should they reject socialist transformation and try to insist on maintaining the old capitalist mode of production and living, society as a whole would not permit them to do so and they would be opposed even by their own families.

The mighty current of socialism which demonstrated itself as the general trend in various ways — from the state down to individuals, from the whole of society down to families — was a most powerful and practical education for the capitalists. Thanks to this factual education and to the fact that the state made the appropriate arrangements for and gave consideration to their work and livelihood, there naturally came to be a growing recognition among them that accepting socialist transformation was the only way to link their own future with that of their country. The realization of joint state-private operation by whole trades in 1956 graphically indicated the result of this kind of practical education.

2. THE ANTI-RIGHTIST STRUGGLE AND THE RECTIFICATION CAMPAIGN IN INDUSTRIAL AND COMMERCIAL CIRCLES

The realization of joint state-private operation by whole trades was of momentous significance to the remoulding of the capitalists. The change in the nature of their

enterprises occurred simultaneously with that of their economic status. The fact that they no longer worked for the purpose of exploitation but for socialist construction, entrusted by the state and under the direct leadership of state representatives, created a favourable condition for them to become working people living by their own labour.

Does this mean, however, that the capitalists have completed their remoulding? Far from it. As was said before, the remoulding involves not only a change in their economic status but also in their political standpoint and ideology. The realization of the joint state-private operation chiefly changed their economic status. Even in this respect, they do not earn their income entirely by their own labour because they still retain, in the form of a fixed rate of interest, the survival of capitalist exploitation and not a few of them still draw high salaries. That is to say, they have not yet completely cut themselves loose from their economic status as exploiters. As for their political standpoint and ideology, it is even less likely that they will have been able to change these immediately as the nature of their enterprises changes. There still exists a wide gap between them and the working people. Comrade Mao Tse-tung aptly put it:

The bourgeoisie and petty bourgeoisie are bound to give expression to their ideologies. It is inevitable that they should stubbornly persist in expressing themselves in every way possible on political and ideological questions. You can't expect them not to do so.¹

¹ Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, p. 53.

He also said:

It is true that in China, socialist transformation, in so far as a change in the system of ownership is concerned, has in the main been completed, and the turbulent, large-scale, mass class struggles characteristic of the revolutionary periods have in the main concluded. But remnants of the overthrown landlord and comprador classes still exist, the bourgeoisie still exists, and the petty bourgeoisie has only just begun to remould itself. Class struggle is not yet over. The class struggle between the proletariat and the bourgeoisie, the class struggle between various political forces, and the class struggle in the ideological field between the proletariat and the bourgeoisie will still be long and devious and at times may even become very acute. The proletariat seeks to transform the world according to its own world outlook, so does the bourgeoisie. In this respect, the question whether socialism or capitalism will win is still not really settled.¹

This shows that the question of remoulding the political standpoint and ideology of the capitalists has grown in importance with the virtual completion of the socialist revolution in the ownership of the means of production.

As we know, political views and ideologies are part of the superstructure of society. They come into being and grow upon such economic bases as befit them; but, conversely, they greatly influence and play an important role in consolidating and expanding their economic bases. Certain political views and ideologies serve the interests of certain economic bases and they exert a wide influence

¹ *Ibid.*, p. 50.

in society. Moreover, changes in them always lag behind those in the economic status of the people concerned. Therefore, in the entire course of the socialist revolutionary movement, the socialist revolution on the political and ideological fronts is far more complicated and difficult than that on the economic front.

Political views are not something abstract but are concretely expressed in word and deed. Comrade Mao Tse-tung gives the following six criteria by which to prove the correctness of political views under conditions obtaining in China. They must:

(1) Help to unite the people of our various nationalities, and not divide them;

(2) Be beneficial, not harmful, to socialist transformation and socialist construction;

(3) Help to consolidate, not undermine or weaken, the people's democratic dictatorship;

(4) Help to consolidate, not undermine or weaken, democratic centralism;

(5) Tend to strengthen, not to cast off or weaken, the leadership of the Communist Party;

(6) Be beneficial, not harmful, to international socialist solidarity and the solidarity of the peace-loving peoples of the world.

Of these six criteria, the most important are those concerning the socialist path and the leadership of the Party.¹

These six criteria also apply to remoulding the capitalists politically and ideologically.

After the realization of the joint state-private operation by whole trades, most of the capitalists still retained their

¹ *Ibid.*, pp. 55-6.

capitalist political standpoint and ideology. This state of affairs was incompatible with the change in their economic status. In particular, there were among them a handful of opponents to socialism who were not reconciled to the victory of the socialist revolution on the economic front. Believing that they could rely on their education, technical knowledge and political influence to have a trial of strength with the working class, they stood against socialism politically and ideologically. This handful of people were the bourgeois rightists, the counter-revolutionaries who broke themselves off from the ranks of the national bourgeoisie. There were also a number of the landlords and comprador capitalists, who had not really capitulated to the people. In the course of the socialist revolution the bourgeois rightists concealed their true nature and waited for an opportune moment to launch an attack on socialism in an attempt to restore the capitalist system. Such being the case, an acute political and ideological struggle between the socialist forces and the capitalist ones was inevitable.

In the summer of 1957, the bourgeois rightists took advantage of the waves of attack launched abroad at that time by reactionary imperialist circles against communism and the rectification campaign of the Chinese Communist Party, and unleashed a frenzied offensive against the Party and the socialist system. The Chinese Communist Party, leading the people throughout the country, launched a struggle of great magnitude against the bourgeois rightists, delivering them a resolute blow. This was a serious political struggle between the socialist and the capitalist forces as well as a thoroughgoing socialist revolutionary movement on the political and ideological fronts. The

anti-rightist struggle and the rectification campaign were of tremendous significance to the remoulding of the bourgeoisie.

At that time, the leftists among the bourgeoisie, i.e., those whose political standpoint had switched from capitalism to socialism, were in the minority. The rightists who firmly maintained their capitalist standpoint in opposition to the socialist system were also few in number. Politically they were the agents of imperialism, the landlord and bureaucrat-capitalist classes. The great majority of the capitalists stood in the middle of the road, wavering between socialism and capitalism. Therefore, it was necessary for a serious struggle to be waged against the bourgeois rightists to beat back their onslaught, so that the majority of the capitalists could be given a correct political orientation and their further remoulding along socialist lines facilitated. Because of this situation, a rectification campaign to oppose the bourgeois rightists, to break down bourgeois ideas and to establish the socialist viewpoint was initiated in the industrial and commercial circles in 1957.

The bourgeois rightists believed that they had found a good opportunity for a trial of strength with the working class, but this handful of people were very thoroughly defeated and treated with contempt the moment their true colours were exposed. The struggle between the people throughout the country and the few bourgeois rightists was one between revolution and counter-revolution, between the enemy and ourselves. However, as the forces of socialism grew more powerful than ever before, it was possible, in this struggle, to adopt methods of reasoning and debate through full airing of views and the

putting up of *tatsepao*.¹ Confronted with hard facts brought to light in the public debates, the bourgeois rightists revealed their true nature still more clearly. They had to submit and admit their crime before the people. Thus, their attack was routed. In dealing with these people, the state followed the principle of combining a grave attitude with leniency. Since they were counter-revolutionaries, a serious struggle had to be waged against them. But, in order to win them over to the ranks of the people again and to educate, remould and differentiate between them, relatively lenient measures were taken in dealing with them so as to give them an opportunity to repent and redeem themselves.

After the bourgeois rightists were defeated and isolated, the campaign undertaken among the capitalists passed into one of rectification. Full airing of views was followed by debates, both centring around their ideas and conceptions of socialism and capitalism. These discussions were intended to set right ideas and conceptions, to distinguish between right and wrong, to break down the capitalist ideas and to establish the socialist viewpoint. The rectification campaign was carried out on the basis of the victory over the bourgeois rightists. Nevertheless, it differed from the anti-rightist struggle in nature. The struggle against the bourgeois rightists was one between revolution and counter-revolution while the rectification campaign was a method by which self-education was conducted within the ranks of the people. The latter had as its purpose the remoulding of the capitalists political

¹ Opinions and criticisms written out in bold Chinese characters on large sheets of paper and posted freely for everybody to see
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views so that they might gradually adapt themselves, politically and ideologically, to the economic system of socialism, continue to make progress toward socialist transformation and to render better service to socialist construction.

The anti-rightist struggle and the rectification campaign were thoroughgoing socialist revolutionary movements on the political and ideological fronts, where their success represented a decisive victory of the revolution. They were a continuation and development of the socialist revolution after it had scored a victory on the economic front. As a result, the political consciousness of the entire people was greatly enhanced, the socialist system was developed and further consolidated, the scope of democratic life in the country further expanded, the relations between the Party and the people were still closer and the unity among the various nationalities all over the country greatly strengthened. The fruits of these political and ideological revolutions were bound to find expression in the country's economic life. Consequently, a nation-wide great leap forward in the national economy occurred in early 1958.

The anti-rightist struggle and the rectification campaign were also a marked success for the capitalists. These movements made most of them see once again the inevitability of taking the socialist road. It was another severe test which helped them to take a big step forward in the process of accepting socialist transformation. In varying degrees, they changed their political viewpoint, enhanced their ideology and political understanding and changed or are now still changing their political orientation. On this basis they initiated, in the spring of 1958, a "give our hearts to the Party" movement.

They voluntarily laid bare their ideas which ran counter to socialism and expressed a desire to discard them because they obstructed their progress. They wanted to be at one with the people in the whole country and to do still better in accepting socialist transformation and in working for socialist construction. Individually or collectively they drew up plans for their self-remoulding.

If it is said that the upsurge in the joint state private operation by whole trades in 1956 represented an important, decisive step in transforming capitalist industry and commerce, then the anti-rightist struggle and the rectification campaign in 1957-58 were also necessary and important steps in the whole process of socialist transformation. Socialist revolution succeeded signally not only on the economic front but on the political and ideological fronts.

3. THE PROTRACTED REMOULding OF THE CAPITALISTS

The all-round victory of the socialist revolution created more favourable conditions than before for the further remoulding of the capitalists. Having changed or being in the process of changing their political orientation in varying degrees through the anti-rightist struggle and the rectification campaign, the great majority of the capitalists felt the "compelling force of circumstances" and the necessity to make continuous progress instead of halting midway. Many of them together with many bourgeois intellectuals played an active part in the all-round great leap forward in the national economy and the cultural and technical revolutions in 1958, which came in the wake of the nation-wide rectification campaign.

However, the progress made by the capitalists was not even and not firm enough: some changed significantly and rapidly, others insignificantly and slowly and a few did not change at all. It was clear that their remoulding would be a protracted one and lapses would recur; thus their ideas could not be changed completely through just a few movements.

In early 1959 the People's Government reaffirmed certain of its policies towards the capitalists. No changes would be made in the policy of paying them interest at a rate of five per cent per annum for seven years; in the high salaries received by certain capitalists; in the positions assigned to the capitalists by the state; in the academic degrees of the bourgeois intellectuals or in the policy of peaceful transformation. This reaffirmation was intended to rid some capitalists of their misgivings and encourage them to work actively for socialism and carry out enthusiastically their self-education and self-remoulding.

In the mighty current of socialist construction, further efforts to remould the capitalists will be taken through three principal courses: practical work, manual labour and political study.

(1) Practical work. At present most of the capitalists have been provided with regular work in the joint state-private enterprises and it is here that they are being re-educated. Working in these enterprises is the principal and most effective way to remould their political thinking. During such remoulding they can be encouraged to work energetically for socialism.

As mentioned before, the capitalists have had a dual capacity in the enterprises since the joint state-private operation by whole trades: as capitalists and as state

functionaries. In these enterprises, they no longer work for profits but for the state and the people. This is a phenomenal change. To the capitalists, a still more important thing is the attitude they take towards this kind of socialist work. Through practical experience they gradually cultivate working habits and change their former views, habits and working style which were those of the exploiting class.

In these enterprises the capitalists work together with the state representatives, the workers and other employees. In the course of their remoulding, they receive the direct guidance of state representatives and the specific assistance of workers and other employees. At the same time they gradually come into close contact with the workers, understand them better and learn from their collective spirit and selfless attitude towards labour. Such education encourages them to make an enthusiastic contribution to socialist construction.

(2) Manual labour. Encouraging the capitalists to take part in manual labour to an appropriate degree has a deep significance in remoulding their ideas.

Over a long period, in class society, manual labour and mental labour were antagonistic to each other because of the antagonism between the exploiting and the exploited classes. The exploiting classes, living by the labour of others, led a parasitic life, completely divorced themselves from manual labour and consequently looked down upon it. The exploited classes were deprived of their right to gain a general education and scientific knowledge and lived long in ignorance and poverty. The aim of the socialist revolution is to eliminate not only the class distinction between the exploiting and the exploited classes but also the gap between manual and

mental labour. To accomplish this, efforts are being made from two directions: the working people are given education and the intellectuals are performing manual labour.

It will take quite a long time to bridge the gap between manual and mental labour, but in our country it is beginning to narrow. In 1958 the Central Committee of the Chinese Communist Party issued a directive to the effect that all Party and government cadres should spend at least one month a year in manual labour. Without question, for the capitalists who used to live by exploitation, it is even more necessary to do some manual labour.

As an important means of remoulding, manual labour helps the capitalists to gradually develop a correct attitude towards it and to get used to it under the influence of the working enthusiasm of the labouring people, to gradually rid themselves of their contempt for manual labour and the labouring people and to learn from them their habits and ways of life.

Participation in manual labour is based on the voluntary principle. Capitalists who take part can do various forms of manual labour, suitable to the type of work they ordinarily do, their age and health. For instance, a certain period of time is set aside for them to engage in suitable manual labour in the establishment where they work or in other industrial and commercial enterprises, to take part in agricultural production periodically, or in various other forms of voluntary labour at irregular intervals.

(3) Political study. The study of political theories, another important aspect in self-education, helps the capitalists to understand the objective laws of social development and the inevitability of capitalism being re-

placed by socialism. They may then broaden their vision and acquire a correct understanding of objective things, so that they will not be at a loss nor go astray during social upheavals.

Since the realization of the joint state-private operation by whole trades, short-term courses, spare-time political schools and forums on political theories have been held, in a planned way in different places in the country, to help the industrialists and businessmen in their theoretical education. Through their studies many have come to understand the inevitable downfall of capitalism and the inevitable triumph of socialism, realize the shamefulness of exploitation and the dignity of labour. These forms of study will be continued so as to further enhance their political understanding and consciousness.

Within the enterprises the capitalists carry on their political studies regularly together with state representatives and workers and other employees.

The participation of the capitalists in theoretical studies is also based on the voluntary principle. Such studies are meant to help them in their political understanding and self-remoulding. To obtain better results, the integration of theory with practice and independent thinking are encouraged and the method of free debates is adopted.

Over the past ten years the capitalists, re-educated by the Party and government, have passed through a profound process of remoulding in keeping with the phenomenal changes in the political and economic fields as well as the changes in the alignment of class forces. At present they are in transition from the position of being exploiters to that of working people living by their own labour. Of course, it requires quite a long period to com-

plete this remoulding and certain lapses may recur. However, we may be sure that, under conditions obtaining in this country, the exploiting class will be completely eliminated by peaceful means and the overwhelming majority of its members gradually turned into working people in the real sense of the word, if continued efforts are made to implement correctly the various policies of the Party and government towards the capitalists and to further strengthen the work of educating and remoulding them through practical work, manual labour and political study.

Chapter Eight

The Peaceful Transformation of Capitalist Industry and Commerce in China—a Victory of Marxism-Leninism

1. THE RESULT OF THE PARTY CORRECTLY HANDLING CONTRADICTION BETWEEN THE WORKING CLASS AND THE NATIONAL BOURGEOISIE

The development of events in China during the past ten years has proved that the adoption of peaceful means to transform capitalist industry and commerce and remould the capitalists entirely conforms to conditions in our country. Today, this policy of peaceful transformation has already scored a great, decisive victory. The 650 million Chinese people have freed themselves from the fetters of capitalism, are striving to build a socialist society and eradicate the remnants of capitalism. During the peaceful change, resistance from the exploiting class was reduced and confusion and losses avoided as much as possible. As the basic transformation of capitalist enterprises continued, social and economic order was maintained and productivity greatly raised (for example, during the transformation of capitalist industry, its output value was doubled). While the capitalists were being remoulded and their negative side was restricted,

they were given opportunities to play an active role in the service of socialism. Like other brilliant achievements in the building of socialism, the success in this field is a victory of the Chinese Communist Party and Mao Tse-tung in integrating the revolutionary theory of Marxism with practice in China.

How to solve contradiction between the working class and the bourgeoisie is a vital question which any country in the period of transition is bound to encounter. The teachings of Mao Tse-tung on the correct differentiation and handling of two different types of contradictions are of extreme importance in resolving this question during China's transition period.

Mao Tse-tung tells us that in our society there exist two types of contradictions totally different in nature — contradiction between ourselves and the enemy and contradiction among the people. It would be naive and contrary to reality to think that under a socialist system there are no longer any contradictions. Contradictions always exist in things. They must be resolved when they arise. When old contradictions are resolved, new ones appear and must again be resolved. Society moves forward continuously as contradictions rise and are resolved. To every revolutionary, therefore, the important thing is to try to understand and analyse the nature of the contradictions, distinguish between them and use appropriate methods to resolve them. Methods of dictatorship should be employed for the solution of the contradiction between ourselves and the enemy and democratic methods for the solution of that among the people.

In formulating a policy to deal with capitalist industry and commerce during the transition period, it was therefore necessary first of all to analyse correctly the

nature of the contradiction between the working class and the national bourgeoisie and its position during that period. Only by so doing could correct measures be adopted.

In March 1949, the Chinese Communist Party, at the Second Plenary Session of its Seventh Central Committee, pointed out:

After the nation-wide victory of the Chinese revolution, there exist in China two kinds of basic contradictions: internally the contradiction between the proletariat and the bourgeoisie and externally the contradiction between China and the imperialist countries.

During the whole transition period from capitalism to socialism, the struggle between the proletariat and the bourgeoisie, between the socialist and capitalist lines, is always the principal contradiction within the country. In describing a principal contradiction Mao Tse-tung said:

Thus if in any process a number of contradictions exist, only one of them is the principal contradiction playing the leading and decisive role while the rest are secondary or subordinate. So in studying any complicated process in which more than two contradictions exist, we must do our utmost to discover the principal contradiction. Once this is discovered, all problems can be readily solved.¹

The contradiction between the working class and the national bourgeoisie was one between the exploiters and the exploited. It was an outcome of the birth of capital-

¹ Mao Tse-tung, *On Contradiction*, Foreign Languages Press, Peking, 1958, p. 33.

ist relations of production, not a product of socialist revolution. During the democratic revolution in China, the principal contradiction was between the Chinese people and imperialism, feudalism and bureaucrat-capitalism. The democratic revolution demanded the overthrow of the reactionary rule of these three big enemies and the liberation of the people from national and feudal oppression. It was under such circumstances that the contradiction between the working class and the national bourgeoisie was relegated to a secondary and subordinate position. Conditions changed in the stage of socialist revolution. The demands of the democratic revolution had been met. The socialist revolution demanded the elimination of the capitalist system of exploitation and the root-cause of its rise. The basic characteristic of a society in transition is that the struggle between socialism and capitalism is present in all aspects, political, economic, cultural and ideological. Under such conditions, the contradiction between the working class and the national bourgeoisie and that between socialism and capitalism could not but become the principal one in China's social life. The solution of this contradiction was and still is the prime task of the socialist revolution.

Since the contradiction between the working class and the bourgeoisie is one between the exploiters and the exploited and since socialist revolution concerns the question of the life and death of the capitalist system, the nature of this contradiction should be classified as antagonistic and it should belong to the type of contradiction between ourselves and the enemy. Mao Tse-tung, however, after making a penetrating analysis of China's specific conditions and the characteristics of China's national bourgeoisie, pointed out that in our country,

besides being antagonistic, the contradiction between the working class and the national bourgeoisie also had a non-antagonistic nature. Such a class contradiction could, therefore, be handled as one among the people.

As discussed in preceding chapters, the basic characteristic of China's national bourgeoisie was its dual character. Because of this, it allied itself with the working class during the stage of democratic revolution. In the stage of socialist revolution, the working class, on the basis of the worker-peasant alliance, maintained its alliance with the national bourgeoisie. Under such circumstances, the question of whether the contradiction between the working class and the national bourgeoisie should be handled as one among the people or one between ourselves and the enemy depended upon two things: the policy adopted by the working class, the leading class in the state, towards the national bourgeoisie; and the attitude taken by the national bourgeoisie, the exploiting class, towards the policy of the working class. Mao Tse-tung pointed out:

The contradiction between exploiter and exploited, which exists between the national bourgeoisie and the working class, is an antagonistic one. But, in the concrete conditions existing in China, such an antagonistic contradiction, if properly handled, can be transformed into a non-antagonistic one and resolved in a peaceful way. But if it is not properly handled, if, say, we do not follow a policy of uniting, criticizing and educating the national bourgeoisie, or if the national bourgeoisie does not accept this policy, then the contradiction between the working class and the national bourgeoisie

can turn into an antagonistic contradiction as between ourselves and the enemy.¹

Because of specific conditions during the transition period in China, correct policies towards the national bourgeoisie were adopted, for example, the policies of use, restriction and transformation of capitalist industry and commerce, of "buying off" the capitalists and of unity and struggle and unity through struggle in dealing with them. This is because when state power was in the hands of the working class, the contradiction between the working class and the national bourgeoisie could be handled as one among the people. Moreover, as the national bourgeoisie had its dual character, as the Party and government continuously educated the bourgeoisie and as the changes in the relative strength of the classes became increasingly favourable to socialism, the great majority of the bourgeoisie gradually accepted the policy of socialist transformation. Consequently, during the socialist revolution, the contradiction between the working class and the bourgeoisie, between socialism and capitalism appeared mainly as a contradiction among the people. Only in a few cases did it appear as a contradiction between ourselves and the enemy (such as that between the Chinese people and a handful of bourgeois rightists). In handling this main contradiction, therefore, the working class in general adopted democratic methods, that is, the method of persuasion and education, except when methods of dictatorship, that is, administra-

¹ Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, pp. 10-11.

tive or legal action, were necessary to restrain certain bad elements who sabotaged the work of socialism.

It must be pointed out, however, that the adoption of peaceful methods in solving the contradiction between the working class and the bourgeoisie did not mean the substitution of class peace for class struggle. Struggles are unavoidable as long as the exploiting class exists in the economic field or holds its own political ideology. The basic characteristics of a transitional society are that the struggle between socialism and capitalism is always reflected politically, economically and ideologically. Through this struggle, socialism grows stronger every day and ultimately gains complete, all-round victory, while capitalism weakens, declines and eventually dies. Such is the inevitable law of development of society during its transition period.

In China, class struggle has assumed a unique form. It is being carried out in a peaceful manner through the control of state administrative organs, the leadership of the state sector of economy and mass supervision by the workers. If the capitalists begin to understand the general trend of events, are willing to undergo socialist remoulding and do not violate the law or cause destruction to people's property, they are looked after by the state, proper arrangements are made for their living and work and they are not deprived of their political rights. This is very different from the state policy towards the feudal landlord class. The working class, relying on its powerful political, economic and organizational strength and close unity with the people of the whole country, primarily the labouring people, is still carrying on the work of persuasion and education among the capitalists. It points out their bright future to them, helps them to distinguish

between what is in their interests and what is not, and to see the general trend of events while encouraging them to accept socialist remoulding. This will ensure the gradual elimination of classes and the accomplishment of the historic task of socialist revolution.

2. PEACEFUL TRANSFORMATION IS A PROCESS OF UNINTERRUPTED REVOLUTION

The peaceful transformation of capitalist industry and commerce is a process of uninterrupted revolution. This means the carrying forward of revolution without cessation, that is, to push the revolutionary movements forward without respite to new stages of development. Karl Marx pointed out long ago:

This socialism is the *declaration of the permanence of the revolution*, the *class dictatorship* of the proletariat as the necessary transit point to the *abolition of class distinctions generally*, to the abolition of all the relations of production on which they rest, to the abolition of all the social relations that correspond to these relations of production, to the revolutionizing of all the ideas that result from these relations.¹

Lenin also said: "We stand for uninterrupted revolution. We shall not stop halfway."² The Marxist-Leninist theory of uninterrupted revolution guides the development of China's revolutionary movement.

¹ Karl Marx, "The Class Struggles in France 1848 to 1850," Karl Marx and Frederick Engels, *Selected Works*, Foreign Languages Publishing House, Moscow, 1955, Vol. I, p. 223.

² V. I. Lenin, *Selected Works in Two Volumes*, Foreign Languages Publishing House, Moscow, 1952, Vol. I, Part 2, p. 160.

In his report on the work of the Central Committee of the Chinese Communist Party to the Second Session of the Eighth National Congress of the Party on May 5, 1958, Liu Shao-chi said:

Marx, Engels and Lenin often pointed out that the watchword of the working class should be "uninterrupted revolution." In putting forward new revolutionary tasks in good time, so that there is no half-way halt in the revolutionary advance of the people, the revolutionary fervour of the masses will not subside with interruptions of the revolution, and Party and state functionaries will not rest content with the success won and grow arrogant or apathetic, the Central Committee of the Communist Party and Comrade Mao Tse-tung have always guided the Chinese revolution by this Marxist-Leninist theory of uninterrupted revolution.¹

The entire course of the Chinese revolution led by the Chinese Communist Party is a process of uninterrupted revolution. On the eve of the victory of the democratic revolution, the Party brought forward the task of socialist revolution. After the founding of the People's Republic of China, following closely the completion of the rehabilitation of the national economy, widespread propaganda and the planned execution of the socialist transformation of agriculture, handicrafts and the capitalist industry and commerce were put under way. The success of the socialist revolution in the ownership of

¹ *Second Session of the Eighth National Congress of the Communist Party of China*, Foreign Languages Press, Peking, 1958, pp. 39-40.

the means of production was followed by the socialist revolution on the political and ideological fronts. After the latter had achieved a decisive victory, then the Party introduced the tasks of the technical and cultural revolutions. Thus our revolution has developed from one stage to another and from one victory to another without an opportunity being missed.

One of the important characteristics of China's socialist transformation of capitalist industry and commerce is that it was not realized in one stroke, but step by step through quite a long period under the conditions of a continuously developing socialist economy, through the policy of use, restriction and transformation and passing from the elementary to the advanced forms of state capitalism. Such a step-by-step process of transformation is a process of uninterrupted revolution.

During the transformation of capitalist industry and commerce, the Chinese Communist Party, in view of the specific conditions in our country, integrated the Marxist-Leninist theory of uninterrupted revolution with the Marxist-Leninist theory of stages in the development of revolution. In other words, due to the irreconcilable contradictions between capitalist relations of production and the development of the productive forces, socialist relations of production had to be substituted for those of capitalism. This object had to be achieved without any delay. On the other hand, however, this does not mean that irrespective of conditions, basic changes in capitalist relations of production at any time are always advantageous to the development of the productive forces. During socialist transformation, it is inadvisable to disregard realities and take hasty action. Consideration must be given to the requirements and possibilities of the ob-

jective conditions, and progress must be made in a planned, systematic way. The policy of use, restriction and transformation towards capitalist industry and commerce as well as every step on such a basis were not decided by subjective wishes. They were adopted to meet the urgent needs of the country and the people after careful study of the actual situation and the various conditions which prevailed. This policy and these steps won the support of the broad masses. Even the capitalists could find no tenable reason to reject or oppose them. The socialist transformation of capitalist industry and commerce was carried out in the light of the needs of the developing national economy and the concrete conditions existing in capitalist industry and commerce. This arduous work done by the Party brought about progress from one stage to another on a solid basis.

During the early years of the People's Republic, it was faced with the important task of restoring the seriously disrupted national economy. It was urgent and necessary to utilize all available economic forces in the service of the country and the people. At that time, the contradiction between the capitalist and socialist sectors of the economy was not yet conspicuous. Through the policy of making over-all arrangement for state and private enterprises and benefiting both capital and labour, the state enabled the capitalist economy to play a role conducive to the welfare of the country and the people and restrained it from playing a harmful one. Initially it set up the leadership of the socialist over the capitalist sector of economy. In 1953 when the state began national planned economic construction, the contradiction between the capitalist sector of the economy and socialist planned economic construction became daily more obvious. Ac-

cordingly, state leadership of capitalist industry and commerce, their control and transformation were strengthened. By 1955, all these enterprises were virtually channelled into various forms of state capitalism. With these preparations, and with the upsurge of the agricultural co-operative movement by the end of 1955 which finally blocked the birth and growth of capitalism, the condition for fundamentally changing the system of capitalist ownership matured. Through the change-over of capitalist industry and commerce into joint state-private operation by whole trades, socialist relations of production practically replaced the old capitalist ones.

After the joint operation by whole trades, some among the capitalists entertained the idea that "remoulding is completed." They claimed that having handed over their enterprises to the state for management and control, the capitalists no longer had a dual character and they needed no more remoulding. Mao Tse-tung made a timely criticism of this idea. He said:

Some contend that the Chinese bourgeoisie no longer has two sides to its character, but only one side. Is this true? No. On the one hand, members of the bourgeoisie have already become managerial personnel in joint state-private enterprises and are being transformed from exploiters into working people living by their own labour. On the other hand, they still receive a fixed rate of interest on their investments in the joint enterprises, that is, they have not yet cut themselves loose from the roots of exploitation. Between them and the working class there is still a considerable gap in ideology, sentiments and habits of life. How can it be said that they no longer have two sides to their

character? Even when they stop receiving their fixed interest payments and rid themselves of the label "bourgeoisie," they will still need ideological remoulding for quite some time.¹

Mao Tse-tung pointed out that after the transformation of private enterprises into joint state-private operation by whole trades, the contradiction between the working class and the bourgeoisie was not completely resolved. It was still the principal contradiction within the country, only it manifested itself in a different form. Before the transformation, this contradiction manifested itself chiefly between the relations of production and productive forces, that is, in the restrictions imposed on the development of the productive forces by the capitalist relations of production. But after the transformation, it chiefly manifested itself between the upper structure and the economic base, that is, in the incompatibility of the political standpoint and ideology of the capitalists with the socialist system. Such a situation explains why the work of re-educating and remoulding the capitalists became more important. Under the leadership of the Chinese Communist Party and Mao Tse-tung, the transformation of capitalist industry and commerce advanced a step further on the basis of the success in changing private enterprises into joint state-private operation by whole trades, from the economic transformation of capitalist enterprises to the political and ideological remoulding of the capitalists. After the socialist revolution on the political and ideological fronts in 1957-58, which resulted

¹ Mao Tse-tung, *On the Correct Handling of Contradictions Among the People*, Foreign Languages Press, Peking, 1959, pp. 39-40.

in a serious split in the ranks of the bourgeoisie while different degrees of progress were made among its members, it was still necessary to continue their remoulding in political ideology in order that they might gradually turn into working people in the true sense.

The continued progress of the socialist transformation of capitalist industry and commerce from one stage to another has not been smooth sailing. It has been an uninterrupted revolutionary process with tortuous and complicated class struggles. It has been a process of uninterrupted struggles. The development of class struggle has not followed a straight line but has had ups and downs, tense in one period and relaxed in another. This is the law of the development of class struggle between the working class and the bourgeoisie in China during the transition period.

Because of the dual character of the Chinese national bourgeoisie, the possibility of the capitalists accepting the leadership of the working class and socialist remoulding existed but, as a class, they could not reconcile themselves to the idea that capitalism is doomed to disappear. So for every step socialist transformation advanced, it was bound to encounter the doubts and vacillations of many capitalists and the resistance of a few die-hards. Between the capitalists and the working class in China, there has always been unity as well as struggle. During the socialist transformation in China, the relations of such a dual character developed unevenly. At times there was more struggle than unity, as at the time prior to the *wu fan* movement in 1952 when the bourgeoisie launched its furious attack on the working class in an attempt to reject the leadership of the state sector of economy. Also prior to 1956 the contradiction between the capitalist re-

lations of production and the planned economic construction of the state became increasingly conspicuous, while again in 1957, the bourgeois rightists unleashed their frenzied attacks on the Communist Party and the People's Government and many among the national bourgeoisie showed vacillation. At other times there was more unity than struggle, as after the victory of the *wu fan* movement when the socialist sector of economy had established its economic leadership over the capitalist sector. Or again, when the bourgeoisie accepted the change-over of private enterprises into joint state-private operation by whole trades, by which the change in the ownership of the means of production was basically accomplished; and later, following the decisive victory in the anti-rightist struggle and rectification campaign when the capitalists expressed their resolve to remould themselves.

Under the wise leadership of Mao Tse-tung, the Party and government fully grasped the law of development of class struggle during the transition period in our country, and correctly adopted the policy towards the bourgeoisie of both unity and struggle and unity through struggle. At every stage in the development of the class struggle, appropriate emphasis was placed on either unity or struggle, now on the one and now on the other, in such a manner as to always take the initiative to propel class relations forward in the interests of socialism. Despite the fact that at times the struggle between the working class and the bourgeoisie became quite sharp, the objective of achieving unity on a new basis was always reached after every struggle. Invariably the work of socialist transformation moved one step forward, and, in

consequence, the aim of socialist revolution was being gradually and successfully realized.

3. THE SUCCESS OF THE INTEGRATION OF THE PARTY'S LEADERSHIP WITH THE MASS LINE

The great victory achieved in the socialist transformation of capitalist industry and commerce in our country was inseparable from the wise leadership of the Chinese Communist Party and Mao Tse-tung, and the working method of the Party's mass line. The firm leadership of the Chinese Communist Party armed with Marxism-Leninism has always been, is, and will be the fundamental guarantee for victories in all our work. The leadership of the Communist Party is realized through proletarian dictatorship.

Marx pointed out long ago:

Between capitalist and communist society lies the period of the revolutionary transformation of the one to the other. There corresponds to this also a political transition period in which the state can be nothing but *the revolutionary dictatorship of the proletariat*.¹

After the founding of the People's Republic of China, a people's democratic dictatorship was set up, led by the working class and based on a worker-peasant alliance. This state power was in essence a form of proletarian dictatorship. Under the historical conditions of our country, it not only embraced the peasants and petty

¹ K. Marx, "Critique of the Gotha Program," Karl Marx and Frederick Engels, *Selected Works*, Foreign Languages Publishing House, Moscow, 1951, Vol. II, p. 30.

bourgeoisie but also the national bourgeoisie which expressed its support to the proletarian leadership.

With its ideological weapon of Marxism-Leninism, its rich experience in struggle, and its correct political and organizational lines, the Chinese Communist Party rallied the people of the whole country around itself and became a mighty and invincible force. Without the firm leadership of such a political party, any victory for socialism would have been impossible.

To be successful in its work, the Party needed to have not only a correct political line and a correct policy, but also a correct working line and a correct working method. The basic difference between proletarian dictatorship and dictatorship by other classes in history is that the latter meant dictatorship of the minority over the majority of people and it represented the interests of the exploiting class, while the former is a dictatorship of the majority of people over the minority, and its historic task is to work for the interests of the broad masses of the working people. It is only the Communist Party which represents the interests of the proletariat that can fully rely on the masses, arouse them to action, implement the mass line, secure their trust and support and establish the Party's leadership on a solid mass basis. It is only under the leadership of the Communist Party that the wisdom and initiative of the broad masses is given full play and they are ready to trust their future to this absolutely reliable guidance. It is precisely because proletarian dictatorship represents the interests of the broad masses of the working people that the policies and the working method of the mass line adopted by the Communist Party have won the active support of the people and been translated by them into action.

Mao Tse-tung has repeatedly stressed that the mass line is the fundamental line of all the Party's work. What then is the mass line? Mao Tse-tung said:

In all, practical work of our Party, correct leadership can only be developed on the principle of "from the masses, to the masses." This means summing up (*i.e.*, co-ordinating and systematizing after careful study) the views of the masses (*i.e.*, scattered and unsystematic), then taking the resulting ideas back to the masses, explaining and popularizing them until the masses embrace the ideas as their own, stand up for them and translate them into action by way of testing their correctness. Then it is necessary once more to sum up the views of the masses, and once again take the resulting ideas back to the masses so that the masses give them their wholehearted support. . . . And so on, over and over again, so that each time these ideas emerge with greater correctness and become more vital and meaningful. This is what the Marxist theory of knowledge teaches us.¹

Mao Tse-tung also pointed out that in any kind of work, the method of combining leadership with mass activity must be employed. He said:

The activity of this leading group, unless combined with that of the masses, will dissipate itself in the fruitless efforts of a handful of people. On the other hand, mass activity, unless well organized by a strong leading group, can be neither sustained long nor be

¹ Mao Tse-tung. *Selected Works*, Lawrence & Wishart, London, 1956, Vol. IV, p. 113.

developed in the right direction and raised to a higher level.¹

It can be seen, therefore, that under proletarian dictatorship, the exercising of Party leadership and the implementation of the mass line are unified and not antagonistic. Only by ensuring and strengthening the leading role of the Party will it be possible fully and correctly to arouse the initiative of the masses which in its turn will strengthen the Party leadership. The Chinese Communist Party, during its long struggle in leading the democratic and socialist revolutions, has built up with the working masses of the country inalienable relations of flesh and blood. All the victories won by our country in the revolutionary struggles and in production are the results of the integration of Party leadership with mass activity.

The method used for the peaceful transformation of capitalist industry and commerce was one of combining Party leadership with mass activity. This method depended on the leadership of state power from above downwards and on the support from below of the broad masses of people upwards, primarily that of the masses of workers and basic sections of the peasantry, in order to gradually realize the transformation of capitalist enterprises and the remoulding of the capitalists.

How is the mass line being implemented in transforming capitalist industry and commerce? There were two aspects involved:

(1) Our country is one led by the working class and based on a worker-peasant alliance. Therefore, whether

¹ *Ibid.*, p. 112.

in socialist revolution or in socialist construction, the masses of workers, peasants and other labouring people are the first to be relied upon. In other words, it is necessary to actively rely upon the workers and other labouring people for their support and participation in the work of transforming capitalist enterprises and remoulding capitalists and to rely upon them for the implementation of the various policies of the Party and the government. Thus the work is not conducted under the leadership of the Party and government only. It is also under the supervision of the broad masses of working people as well. At the same time it is necessary to rely on the socialist forces constantly strengthened and developed by the working people while they build socialism. This will establish absolute hegemony for socialism in political, economic and ideological fields and encourage the capitalists to gradually perceive the main stream in the mighty current, their future and gradually accept socialist remoulding.

(2) The socialist transformation of capitalist industry and commerce is carried out in conditions where the working class and the national bourgeoisie are maintaining their alliance. Therefore, the working method of the mass line is also applied among the capitalists. Mao Tse-tung said:

The masses in all cases are by and large composed of three groups of people: the active, the relatively passive and those who are betwixt and between. The leadership must therefore be skilled in drawing the small number of active individuals into the leading group and in relying on them to enhance the activity

of the betwixt and between and draw the passive into the work.¹

The same applies to the capitalists. The method employed to remould them is not by coercion nor by giving orders, but by persuasion and education and by leading and encouraging them to undertake self-re-education and self-remoulding, gradually differentiating between them so that step by step and group by group they may turn into working people.

The method of combining Party leadership with mass activity as employed in the work of transforming capitalist enterprises and remoulding the capitalists requires the leadership of the Party from top downwards, putting politics in command, and the support of the masses of people from below upwards to implement the mass line. The mass line is carried out among the working masses as well as among the capitalists. This is also the application of the policy of "walking on two legs" to this particular work. It is precisely because of this that it has assumed the form of a mass revolutionary movement. The various important steps taken during the transformation and remoulding, such as the *wu fan* movement, the change-over to joint operation by whole trades, and the socialist revolution on the political and ideological fronts, were all carried out under the unified leadership of the Party and through the form of mass movements.

Mao Tse-tung reiterated that whether in socialist transformation or in socialist construction, one of two methods may be employed, either to do the work quicker and better or slower and poorer. The method we should em-

¹ *Ibid.*, p. 112.

ploy is the faster and better one. Based upon the Marxist-Leninist theory of peaceful "buying off" together with the concrete conditions in our country, the Chinese Communist Party and Mao Tse-tung adopted the policy of peaceful transformation in handling the question of private enterprises and the capitalists. The unified leadership of the Party and the working method of the mass line were implemented in this work. Accordingly, it took only three years to bring about a fundamental change — from 1953 when the planned transformation of capitalist industry and commerce began to early in 1956 when the system of capitalist ownership was basically changed. In the meantime, as the process of transformation went on, production was developed and disruption avoided. Then followed the victory of the socialist revolution on the political and ideological fronts which in varying degrees changed the political orientation of the majority of the capitalists. A movement for self-re moulding arose among them. The success of the peaceful transformation proved that the method employed by the Party was one which achieved greater, faster, better and more economical results. In a comparatively short period and by paying the lowest price, the working class obtained an important victory for socialism.

The development of events has demonstrated that the Chinese Communist Party and Mao Tse-tung worked out the most correct method by which to carry out the socialist transformation of capitalist industry and commerce. In China, the capitalist system of exploitation has gone for ever. With the speedy progress of socialist construction, new vistas of a prosperous, happy and beautiful socialist society open before us.



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