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Dear Phil:

The Chinese Communists have recently proclaimed a new "general line of the state during the period of transition" which marks another phase of their program to socialize industry and commerce in China. Under the slogan of "encouraging private capital to develop toward state capitalism,!" this new definition of economic policy outlines the process by which private enterprise in China is to be changed and liquidated, step by step, "over a considerably long period of time? The new policy proposes that the remaining private enterprise in the country pass through several stages of "state capitalism;" each of which represents an increase of direct government control, to prepare the way for ultimate socialization.

The number of private enterprises in Communist China is steadily shrinking, and **current** government policy makes clear that those which continue to exist during the "period of transition" to **socialism** will lose all of their independence as they go through the various stages of "state capitalism."

Sincerely yours,


A. Doak Barnett

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A M E R I C A N U N I V E R S I T I E S F I E L D S T A F F

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**THE METAMORPHOSIS OF PRIVATE ENTERPRISE
IN COMMUNIST CHINA**

A. Doak Barnett

Dialectical materialism, according to Emile Burns in his book What is Marxism?, is the view which holds "that (reality) is not **static**, but in motion, developing and dying away; that this development is gradual up to a point, when there is a sharp break and something new appears; that the development takes place because of internal conflict, and the sharp break is the victory of the rising factor over the dying factor."

Reality is certainly not static in Communist China today. The dialectic of social, political and economic revolution continues to unfold, as Chinese society goes through the process of "developing and dying away."

In the economic sphere, the steady development of a state-controlled "**socialist**" economy continues, and as a result of the internal conflicts involved in this process, the private economy is slowly but surely dying, especially in urban areas. And the vestiges of the private economy are undergoing a basic **transformation**.

The Chinese **Communists** have recently proclaimed a new "general line of the state during the period of **transition**" which marks another phase of their program to socialize industry and commerce in China. Under the slogan of "encouraging private **capital** to develop toward state capitalism," this new definition of economic policy outlines the process by which private enterprise in China is to be changed and liquidated, step by step, "over a considerably long period of time,"

Although the Chinese **Communists** have always maintained that they would socialize China's economy as soon as it became feasible, and have frankly stated that the present coexistence of state and private enterprise is temporary and tactical, a substantial change has taken place in the treatment of private sectors of the economy during the past four years,

In 1949, the Common Program, a general outline of government policies, made clear that state-owned enterprises would be "the leading force of the entire social economy," but it also stated that "the People's Government shall encourage the active operation of all private economic enterprises beneficial to the national welfare and to the people's livelihood and shall assist in their development." Many, if not most, Chinese

businessmen interpreted this to mean that if their private factories and shops were not liquidated or nationalized, they would be able to continue to function, for an undetermined but fairly long period of time, as private enterprises. Despite the steady increase of government controls over the entire economy, the optimism of some businessmen continued until 1952. Then, suddenly, private enterprise was subjected to severe attack in the Five Anti Campaign against bribery, tax evasion, stealing of state property, cheating on government contracts, and stealing state economic intelligence, (See A.D.B.-1952-2 through 6, which describe this campaign.) The Five Anti Campaign intimidated the business class, took away much of its capital, and greatly increased government control over private enterprise. By the end of the campaign, in the summer of 1952, the independence of private businessmen had been undermined to such an extent that in many cases a process of partial socialization had taken place without actual nationalization. Chinese businessmen woke up to the fact that the immediate alternatives facing them were not clear-cut. It was not a matter of private enterprise or complete socialization. They realized that like tadpoles they might go through a steady metamorphosis and end up being toads without quite knowing what had happened.

This metamorphosis has, in fact, been going on for some time, but neither the Communist leaders in China nor their business victims have been clear about the stages involved in the process, which to date has been rather haphazard. Now, the newly-proclaimed "general line of the state during the period of transition" outlines several distinct stages by which the Chinese Communists plan to socialize what remains of private enterprise in the Chinese economy,

This clarification, needless to say, has not pleased China's businessmen. Recent arrivals from Shanghai report that despite general austerity, food shortages and rationing of grain, the night clubs and expensive restaurants in that metropolis are experiencing a peculiar boom as businessmen, with an "eat, drink and be merry" attitude, spend the money they have left. The prospect of losing their tadpolehood and turning into toads through several stages of "state capitalism" is uninspiring for Chinese businessmen, to say the least.

"State capitalism," said the official Peking People's Daily in explaining the new "general line of the state" on November 11, "is the economic alliance between socialist elements and capitalist elements under the direct leadership of the socialist economy. State capitalist enterprises are those capitalist enterprises which, under the control of the People's Government, and employing various forms, link themselves and cooperate with the state-owned socialist economy, and accept the supervision of the working class. State capitalist economy is still not socialist economy, but it is no longer private capitalist economy in its general sense, and is an economy of a transitional nature,"

On the previous day, Li Wei-han, a leading Communist Party member who is Vice-chairman of the Peking regime's Committee of Financial and Economic Affairs, had made a major speech outlining the "general line of the state" to the first National Congress of the All-China Federation of Industrial and Commercial Circles. The two main economic tasks at present in China, Li stated, are the development of the socialist sectors of the economy and "reform of the non-Socialist sectors." The government's policy toward private industry and commerce, he said, is one of "utilization, restriction and reform" - reform meaning "the leading of different enterprises, in accordance with their different conditions, on to the path of state capitalism, so as to facilitate the final realization, when the conditions exist, for their socialist reform."

Li Wei-han's November 10 speech to the organized "representatives" of Chinese industry and commerce will undoubtedly remain a landmark in the development of one important phase of Chinese Communist economic policy. He began by stating that the first stage of China's two-stage revolution ("new democratic revolution" and "socialist revolution") ended with the founding of the Peking regime in 1949, and that China is now in a transitional period leading to socialist industrialization. He went on to say that in this transition both agriculture and private industry and commerce must be "reformed." The prescribed stages for the metamorphosis of agriculture - mutual aid teams, agricultural producers' cooperatives and finally collectives - are not new (see A.D.B. -1952-9, The Road to Collectivization), and in this field Li's statement merely marked a decision to proceed according to plan. (After a rapid start in the direction of collectivization in 1952, the Chinese Communists slowed down considerably on this program in 1953.) Li's definition of several stages for the transformation of private industry and commerce into socialized enterprise is new, however, and throws additional light on the road to socialization in China,

All private enterprise, Li implied, must pass through stages of "state capitalism" in preparation for ultimate socialization. There are several different forms of "state capitalism," he said. First of all, there are the "lower forms" in which the state merely purchases the products of private industry, acts as selling agents for industry, or deals with private merchants who must sell at official retail prices. More advanced "intermediate forms" include those in which the state in dealing with private industry places orders for processing jobs, orders all of an industry's production of finished goods, or underwrites the marketing of an industry's entire output. In commerce, the "intermediate form" is one in which merchants become purchasing or marketing agents for government organizations. The "highest form" of "state capitalism" in both industry and commerce is the "joint state-private enterprise."

These various forms of "state capitalism" ("new forms may yet be created," Li said) represent, of course, merely different degrees of direct control by state economic organizations and agencies. In "joint state-private enterprises," government representatives actually take part in management and themselves make all important decisions. But even the "lower" forms involve a high degree of government control. "We know," stated the Peking People's Daily in an editorial on November 14, "that private enterprises, once they have accepted orders from the state for processing jobs and finished products, cease to be private capitalist enterprises in the general sense, and become a kind of state capitalist enterprise. Such enterprises carry not only a moral obligation, but also a legal responsibility, for the fulfillment of the state's plans. Furthermore, the relationship arising out of placing of orders for processing jobs and finished products is not the general relationship between buyer and seller, nor is it merely a relationship bound by a contract, but rather it is the relationship between a leadership party and the party led. Accordingly, such acts as the undermining of orders placed for processing jobs and finished goods in the attempt to create disturbances and hold sway in the small world provided by the free market, are obviously not tolerable to the government and the people." If private businessmen resist, the editorial warned, "they will be heading on the road of destruction of their own volition."

The functions of private enterprise during this transition period, according to the Chinese Communists, is simply "to supply finished products to the state" (i.e., produce on contract to government organizations), assist in the "interflow of supplies" (i.e., take part in domestic trade under the control of state trading agencies), "accumulate capital for the state" (i.e., turn over surpluses and profits to the state, through taxation and other levies), and "train technical and management cadres for industry" (i.e., pass on their knowledge and skills to government workers who will eventually supercede private entrepreneurs). Profits are to be strictly regulated - as are all other aspects of business operations - and the net income of private enterprises is to be divided between the state income tax, the operating reserves of enterprises themselves and welfare bonuses to employees, with the remainder, which cannot exceed 25 per cent of net income, going to managers and owners. Businessmen remain under a pall of suspicion in which their potential subversiveness is constantly emphasized. Li Wei-han stated that "the basic nature of the bourgeois class that seeks solely its own profits will inevitably produce an undermining influence against the state and the people's livelihood.....if there are no appropriate restrictions, or if the restrictions are not adequate, the evil nature of the bourgeois class in seeking only profit will assert itself."

To those not familiar with Communist jargon, many of the recent statements on "the general line of the state" sound like gobbledegook. Why are there so many fine distinctions between different "higher" and "lower" forms? Why don't the Chinese Communists nationalize all economic enterprises completely and get it over with? The answer is that the Chinese Communists would like to, but recognize that they still are not capable of taking direct control of the entire economy. Economic planning is in the most rudimentary stage in China. Even as far as state-owned enterprises are concerned, it is evident that although the Chinese Communists have completed the first year of their Five Year Plan, they still do not have any effective overall plan or planning mechanism. Yet the Peking regime believes it is essential to subject private enterprise to their plans and controls as much as possible. Perhaps most important, the Chinese Communists still have a long way to go before they can train the bureaucrats who can take over the managerial functions of private businessmen. At present they simply cannot dispense with these businessmen, so they are trying, by devious means, to convert as many businessmen as possible into partial or complete employees of the state in the various forms of "state capitalism." Under "state capitalism," the entrepreneur functions of businessmen slowly disappear, but they continue to manage enterprises under government control and direction. The problem of relations between the government and the business class in China is certainly one of the most complicated problems which the Peking regime faces in the present period, because the government desires both to use private businessmen and to destroy them, and the program for various stages of "state capitalism" is the means by which it hopes to achieve these two contradictory aims.

The increase of state ownership and control over the Chinese economy has proceeded steadily, without halt, during the past four years. By the end of 1952 (there are no summary figures yet available for 1953), 70 to 80 per cent of heavy industry and 40 per cent of light industry in China was state-owned. Of the total industrial output of large-scale industrial enterprises, 60 per cent came from state-owned enterprises, 6 per cent from "joint state-private enterprises," 3 per cent from state-controlled cooperatives, and only 31 per cent from private industries. In short, less than one-third of China's industry remained in private hands. The situation was not very different in commerce. During 1952, state trading agencies and cooperatives handled over 50 per cent of the total business turnover in domestic markets in China; in the wholesale field the figure was close to 100 per cent for many commodities, and in the retail field it was roughly 30 per cent in China's major cities. In short, the private sector of the economy - the sector subject to the forms and controls envisaged in the current program to develop "state capitalism" - has steadily shrunk.

At the same time, "state capitalist" relations between government agencies and remaining private enterprise has rapidly

increased. By the end of the third quarter of 1953, state trading agencies (which employed 400,000 workers and had established 13 specialized companies with branches all over the country) monopolized 65 per cent of all wholesale trade in China and purchased most of the products of private industry. For example, in Tientsin, principal industrial center of North China, three-quarters of the output of private industries in this period was purchased by state companies. In Canton, largest economic center in South China, 64 per cent of private industry's output in the last quarter of 1953 was produced on government contract, while in Peking over one-half the production of private industry in the first two quarters of 1953 was sold to state agencies. "Joint state-private enterprises," which are considered the "highest form" of "state capitalism," have progressed furthest in Shanghai, where over 60 large factories have already undergone this transformation. These figures indicate that "state capitalist" forms of government control over private enterprise had developed considerably even before the new "general line of the state" was proclaimed last November. This process is now to be accelerated, and applied to all private enterprise, in a regularized step-by-step program.

The way in which this program for furthering "state capitalism" was announced last November is typical of the means by which the Chinese Communists use representatives of victimized groups in China to sponsor onerous policies. The first exposition of the new "general line of the state" was made not by a Communist official but by a businessman to the opening session of the first National Congress of the All-China Federation of Industrial and Commercial Circles on October 23. It was Ch'en Shu-t'ung, 78-year-old founder of the Commercial Press (formerly one of the leading business organizations in China) and now a mouthpiece for Chinese Communist policy, who proclaimed that "we industrialists and merchants have, . . . changed our features," and "only by sincerely accepting the leadership of the state-owned economy and supervision of the working masses may private industrialists and merchants manifest their positive role." The most important speech, of course, was that by Li Wei-han, who laid down the party line. But the Congress closed on November 12 with a speech by Li Chu-chen, manager of a leading Chinese salt company (also over 70 years old), who said, "We shall say here first that we private industrialists and merchants will joyously and enthusiastically support the general line of the state during the period of transition and are prepared to accomplish, through state capitalism, our reform from capitalism to socialism. . . . At the same time, we must also exercise serious vigilance, and refrain from repetition of the 'Five poisons'." His audience was composed largely of representatives of private enterprise from all over China. In short, the ultimate death knell of private enterprise in China was tolled by businessmen, speaking to businessmen, But the strings were really being pulled from behind the scenes by the Communists themselves,

Since the summer of 1952, the Chinese Communists have been relatively quiet in regard to their policy toward private enterprise. The Five Anti Campaign shook business to its foundation, and recovery was slow. Furthermore, the shake-up of the campaign had to be followed by organizational consolidation. For well over a year, therefore, local federations of Industry and Commerce have been organized throughout China as important instruments of direct control over businessmen. These federations include not only representatives of organized business groups, but also representatives of state enterprises, cooperatives and "joint state-private enterprises." At the city and county (hsien) level, the federations organize the businessmen under them into guilds or trade committees, they set up branches in subordinate districts (ch'u), and in the districts even handicraftsmen, stall merchants and travelling merchants are organized into associations under the federations. A provincial and national hierarchy is superimposed above these local organizations. The whole network, which is a channel for transmitting Communist directives and implementing government controls over businessmen, has been thoroughly organized during the past year, and the first National Congress in October-November merely symbolized the successful completion of this process. It was an appropriate place and time for the Communists, through their unofficial private agents for dealing with China's businessmen, to announce their new policy decisions.

Although the "new general line of the state" represents an acceleration in Communist China of government attempts to control the vestiges of private enterprise, the liquidation of industry and commerce will undoubtedly still take some time. Li Wei-han stated that, "The stage of transition calls for the passing of a considerably long period of time. The actual length will depend on the efforts and accomplishments of the people of the whole country in socialist industrialization and socialist reform. Gradual transition means advancing steadily. It calls neither for stagnation nor for hasty advance."

The dialectic of revolution has not yet reached the point of the final sharp break heralding the "victory" of socialism over capitalism in China, but the metamorphosis of private enterprise goes on and the economy is definitely "in motion, developing and dying away,"

A. Oak Barnett