NOTES ON THE ESTABLISHMENT OF STATE CAPITALISM IN CHINA POST-1976*

Since we formed as an organization, ORU has held that China has been on the capitalist road since about 1976. It is now eight years later and the capitalist roaders are still in power. In those eight years has a form of state capitalism come into being in China? Has China gone over from being a socialist country to being a state capitalist one? The answer is yes.

Inasmuch as China is a very important country, both in the world generally and for the history of the anti-revisionist Left in the U.S., it is suggested that sometime this year the organization undertake a very limited and concise study to evaluate the thesis that China is a state capitalist formation. I say very limited and concise, since, coming from our viewpoint that the USSR has established a form of state capitalism and that we uphold the conclusions of Mao about class struggle under socialism, the evidence is very strong for the existence of state capitalism in China.

Method

These notes are intended to present some of the main arguments, facts and theses for the viewpoint that state capitalism has been established in China. They result from a brief investigation as part of other work with which comrades are familiar. Accordingly, these notes will be kept concise and will point to where more detailed analysis and evidence lies. (See the Reference list at the end of the paper. Texts will be referred to by number on the list.)

I will start by reviewing briefly what happened in China with leadership from 1975, look at what the Chinese CP has to say about the social formation in China today, and then critique those views in light of what the actual social formation appears to be. I will not start from a view of what the "essence of capitalism" is and then try to apply it to China. This last method, which has been used a fair amount in the debates over the restoration of capitalism, is simply wrong.

Marx's method was to first examine a social formation to determine what its economic (and political) laws of motion are. The determination of the principles guiding the social formation came after an examination of the fabric of the society. It is a serious distortion of Marxist method to start with certain criteria of capitalism and then examine a society (Russia, China) to see if the society fits the criteria. It is all the more mistaken if one takes criteria from 19th century competitive capitalism and then applies them to a 20th century society which has been building socialism in the era of imperialism and socialist revolution. (This is exactly the method used by a former member of ORU when she set about proving to herself that the Soviet Union was not capitalist.)

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It would be similarly mistaken to start with criteria about what constitutes capitalism in the USA or USSR and see whether China fits those criteria. However, once investigation of the society has been done, then comparisons may be drawn between different societies to shed whatever light may be gained by such comparisons. This is a far different thing than "proving" by such a method that capitalism does or does not exist in a country.

1975-1976 and After

As comrades will recall, in 1975 Mao and his allies in the CPC launched campaigns to study the dictatorship of the proletariat and criticize those who would "reverse the correct verdicts" of the Cultural Revolution. Deng Xiao-ping and his allies were in particular a target of the latter.

In this period Deng wrote and circulated works like "On the General Program for All Work of the Whole Party and the Whole Nation" and "Certain Questions on Accelerating the Development of Industry." These works stressed changing the focus of socialist construction to economic construction and giving class struggle under socialism a back seat. Deng's views and criticisms of them are conveniently collected in And Mao Makes 5 (Ref 1). In April 1976 the famous incident in Tien An Men Square took place and was judged counter-revolutionary. A few days later Deng was dismissed from all posts inside and outside the party.

Following Mao's death in September 1976, Hua Guo-feng became the titular leader and the "Gang of Four" were arrested. Deng remained behind the scenes, but as David Milton pointed out early on, was orchestrating things. Over the next few years Deng reasserted his considerable powers and eased Hua out. By the 6th Plenary of the 11th Central Committee of the CPC in June 1981, Hua's resignation as chair of the party had been accepted. The "half-way house" of Hua Guo-feng had been overcome. The lessons of the Cultural Revolution, which were reaffirmed at the 11th Party Congress in 1977 under Hua's leadership, were now totally repudiated. (Ref. 3, p. 49 or 3.49) Since then Deng and his allies have been firmly in control of leadership.

The Deng group has proceeded to unfold its economic program. What is remarkable is that the basic ideas are in embryo and sometimes point for point the same ones laid out in the publications around 1975 noted above, the same ones criticized widely at the time. Actually, the basic idea of these same people of downplaying class struggle and emphasizing development of the productive forces goes back to the 50's. Hence, developed critiques of the basic viewpoint of the present regime in China have long since been written and circulated. Again, And Mao Makes 5 contains a number of good ones.
Hiding Behind the Red Flag

Mao foretold that if revisionists came to power in China they would use his words as much as possible to do so. This is just what has happened. Over the years they have phased out as much of Mao as they could get away with and put the rest to good use. Examples: They published Volume V of Mao's works which goes up to 1956, but did not continue with subsequent volumes covering later years. The reason is that there is much on economic construction in there which they can make use of. Mao's views after 1956 increasingly go directly opposite to those of the current leaders. Another example: the Dengists claim they uphold Mao Ze-Dong Thought. Only, they consider Mao made very serious errors from 1966-76 and that the Cultural Revolution was a gigantic mistake, "ten years of anarchy," etc. Accordingly, they "re-establish the true nature of Mao ZeDong Thought" by explicitly separating out and rejecting the lessons of class struggle under socialism, restricting bourgeois right and preventing capitalist restoration, etc. (8.64)

The Economic System of China According to the Dengists

The following are taken from authoritative Chinese spokespeople, in particular, Zhao Zi-Yang in official reports to the National People's Congress.

There are three "sectors of the economy" in this view:

1) "The state economy is the sector of socialist economy under the ownership by the whole people." (4.81)

2) "Collective ownership by the working people is the principal economic form in our countryside...Apart from the people's communes, agricultural producers' cooperatives and other forms of co-operative economy such as producers', supply and marketing, credit and consumers' co-operatives exist and are growing in our rural areas." (4.82)

3) "The individual economy of the working people." Under this is included the "private plots": "Working people who are members of rural economic collectives have the right, within the limits prescribed by law, to farm plots of cropland and hilly land allocated for private use, engage in household sideline production and raise privately-owned livestock." (4.83) Also included are the more than 1.5 million licensed private enterprises, which can employ up to 7 workers. (In 1978 there were only about 150,000 handicrafts and retail businesses run by individuals. (5.16, 6.172)

The interrelation of these sectors as well as the basic viewpoint of socialist construction can be seen in the following remarks from Premier Zhao Ziyang's 1981 report on the economic situation and principles:
"The state economy and the collective economy are the basic forms of the Chinese economy. The individual economy of working people, operating within certain prescribed limits, is a necessary complement to the public economy. The vigorous development of socialist commodity production and commodity exchange in China is a necessity. The basic orientation of the structural reform of our economy should be as follows: while upholding the planned socialist economy, give scope to the supplementary role of regulation through the market and fully take into account and utilize the law of value when working out state plans; strengthen unified leadership by the state over economic activities of overall importance to the economy and the people's living standards, give different enterprises different degrees of decision-making power in their economic activities and at the same time extend the democratic rights of workers and staff in the management of their enterprise; and change over from economic management solely relying on administrative measures to management combining economic with administrative measures and utilizing laws and regulations as well as economic levers in running the economy." (emphasis added)

What Makes China Socialist according to the Deng Group?

Since the Deng group rejects the lessons of the Cultural Revolution on class struggle under socialism, what, in their eyes, makes the society socialist? As the revised Constitution (1982) puts it, "The system of socialist public ownership supersedes the system of exploitation of man by man; it applies the principle of 'from each according to his ability, to each according to his work.'" The socialist nature of the society is guaranteed because the main means of production are publicly owned, or as they sometimes put it, are owned "by the whole people." This familiar line of argument is the beginning and the ending of the Dengists' case.

Class Struggle Under Socialism

Is class struggle, then, totally over in socialist society? No, say the Dengists.

"Class struggle no longer constitutes the principal contradiction after the exploiters have been eliminated as classes. However, owing to certain domestic factors and influences from abroad, class struggle will continue to exist within certain limits for a long time to come and may even grow acute under certain conditions. It is necessary to oppose both the view that the scope of class struggle must be enlarged and the view that it has died out." (3.78)
The "certain domestic factors" are not further identified in the resolution on CPC history, but elsewhere in an authoritative publication, the economist Xue Muqiao does develop them:

"Since the bourgeoisie has lost the material basis for its existence with the basic completion of the socialist transformation of the ownership of the means of production, counter-revolutionaries bent on opposing the Communist Party and socialism are few in number. In these circumstances, class struggle has not come to an end mainly because, first, the political and ideological influence of the bourgeoisie persists in the country; secondly, the force of habit of the small producers still exists on a vast scale; and thirdly, the country is still encircled by capitalist countries, including a social-imperialist country." (7.269)

He goes on to say that "all kinds of criminals" will be found but

"...in normal conditions, these anti-socialist elements cannot form an open, full-fledged class. The present class struggle is a remnant form of the class struggle in history and is no longer the principal contradiction in China." (7.270)

DESCRIPTION AND CRITICISM

I would describe the sectors of the economy differently than Premier Zhao Ziyang does. Utilizing Lenin's method of looking at the sectors of the economy (See Appendix), they would appear to break down this way:


In this sector the dominant role is played by the state-owned factories. There are also the state-owned distribution system and other state-owned ventures.

Up to 1976 the income from sales by factories was returned to the state. After 1976 (more accurately 1979), new methods were tried out. Initially some factories were allowed to keep 2-3% of above-quota profits for use in the factories. This system was then spread to a large number of enterprises. However, this did not work well enough and the system has been replaced by a state tax on the output of factories. The state gets 55% in tax, the enterprise keeps 45% for its own use, which may include investment in production facilities inside or outside the factory. Supposedly this investment is under the guidance of the central or regional planning authorities but in fact investment outside the plan is, according to the Chinese themselves, "out of control."

Zhao outlines four types of enterprises and products in a spectrum from those whose output is totally mandatory under the plan to those whose output is totally outside the plan. The basic idea is to
encourage the "responsibility system" in each enterprise and to decen-
tralize economic management to the factories themselves. The Chinese,
admiring the Yugoslav and Hungarian system, are encouraging medium and
small scale commodity production outside the plan and stressing the
material benefits that will accrue to those undertaking such produc-
tion. This line has already led to serious problems of overinvest-
ment, shortages of raw materials and supplies for factories under the
plan, graft, waste, etc. These deficiencies are commented on by the
Chinese in the documents already cited. (See also Park's book for the
most compact and detailed account of these and other problems.)

The subject of business management looms very large in current Chinese
practice. On the plea of "learning from the West," 500 Chinese busi-
nessmen and economists have been trained by the World Bank. U.S. pro-
fessors have been brought in to teach capitalist management prac-
tices. Along with this, intellectuals have been highly praised are
highly prized by the leadership, are given material rewards, and are
expected to help develop production through their scientific and
economic expertise. One-man management has replaced collective,
3-in-1 management. Managers are being given increasing powers, with
hiring and firing now being proposed. While democratic input is given
lip service through supposedly revived "trade unions," in fact the
large-scale democracy on the shop floor from the Cultural Revolution
has been liquidated. I would say that a managerial and technocratic
class, closely tied with party bureaucrats, has developed in opposi-
tion to the workers on the production floor.

Many enterprises have been closed or merged with others in "rationali-
zation" into larger production enterprises or associations. Workers
have lost jobs because of the consolidations, and unemployment has
become a significant factor in the country. The number of unemployed
exceeds 20 million in the urban areas, three-fourths of them women.
The problem has been exacerbated because while formerly (before the
Deng group gained power) large numbers of urban youth were sent to the
countryside to help with production and remould themselves, this is no
longer done.

Material incentives have been consciously introduced. Bonuses are
given to "above average" workers, but the leadership complains that
these are too often distributed equally owing to backward "egalita-
rian" views by the workers from China's feudal history.

2. Collectively owned and run enterprises. The communes are the main
group in this sector. There are also marketing and supply coopera-
tives of many kinds. The communes are being retained in form, but
some of their functions are being assigned to local governmental
bodies and they are being transformed internally. Up to 1976 produc-
tion and accounting was by brigades or production teams, or in some
cases the entire commune. Reward for work was by workpoints and/or
collective discussion and decision. Since 1976, the "family responsi-
bility system" or contract system has been very widely introduced.
This is similar to what existed about 1956. Under this system work is contracted to a family or groups of families who produce on the collectively-owned land. Families fulfill the quota, pay some to the state, some to the commune and keep the rest (much of the payment is grain, in kind.

In addition more and more labor is being carried out on the private plots. Much has been made in the West of this production. Peasants can grow vegetables, livestock, cash crops and keep the profits for themselves. As 80% of China's population is still rural, and many if not most are so engaged, this is a sizable factor. The Chinese claim the standard of living has gone up markedly among the peasants because of this policy. At the same time, there appears to be greater poverty among millions of peasants as well. There is great unemployment; some rich peasants are considering setting up "relief stations for the poor". The state subsidizes the basic necessities, according to one source, 100 million peasants. In addition, the communes are in some instances benefiting from the large-scale reclamation, irrigation and construction projects carried out during the Cultural Revolution.

There are small factories on the communes, some whose production is mandated by the 1 or 5 year plan, others totally outside the plan.

3. Private capitalism: joint foreign capital-state enterprises. This had all but disappeared up to 1976. Payments of profits or royalties from enterprises formerly owned by capitalists were stopped in 1967 during the Cultural Revolution. What is new is the setting up of four special economic zones for joint state-foreign capital ventures on the plea of "keeping an open door" and utilizing Western capital to expand the forces of production in China. The workers in these enterprises are basically all Chinese and the Chinese government agrees on the wages to be paid (rate of exploitation.) While much capital has started to flow into these four zones, this sector is minor in importance compared to the preceding two.

4. Small commodity or petty production. This is what the Dengists call "the individual economy of the working people." Before the present leadership gained control, nearly all production was under the 5 year state plan. There were no doubt some individual producers. Since 1978-9, small commodity production has grown by leaps and bounds. By 1984 there were 1.5 million licensed private enterprises which could hire up to 7 employees. This includes the growth of small outfits providing services for profit also.

In the rural areas, in addition to the above, we need to include the vast amount of above-mentioned private plot production. The Chinese leadership, too, considers this commodity production.

5. In addition to the above four sectors, which engage in production, the central planning apparatus and the banks should be mentioned. Both the planning process and the banking-financial structure have undergone many changes since 1949 with considerable experimentation.
At present the thrust of modernization in these areas is to allow more scope and responsibility for regional and local planning and for the banks. This includes letting local enterprises and governmental bodies take more initiative in setting production targets and responsibility for meeting them. Procurement of supplies and materials is also part of this general approach.

The banks' role is now being increased from simply that of "book-keeper, cashier and mint-maker" ("China's Socialist Modernization," FLP 1984, p. 414) to playing a more active role in granting loans, and in the near future, "managing them." Banking is nationalized but there are several banks with different functions: firstly, The People's Bank of China; then the Agricultural Bank of China, which is under the People's Bank; the Bank of China (import-export bank), also under the People's Bank; The People's Insurance Company of China, the People's Construction Bank of China (for "capital construction"), and the China International Trust and Investment Corporation (for ventures with foreign companies).

It is evident that the majority of capital and funds is channeled through the nationalized, state-owned financial structure. Although this requires considerably more study, it is through this apparatus in combination with the state-owned factories and production on the communes that the new bourgeoisie has "rigged up" the mainmast of its state capitalist structure (after tossing "The Great Helmsman" overboard).
As is clear from the above outline, through conscious policies, the scope of commodity production has been greatly enlarged throughout China. Commodity production is being encouraged in every pore of society, in both countryside and city, in the commune and the state-owned factories, in joint state-foreign capital enterprises and in small-scale petty or commodity production.

This has been justified under the signboard of building "competitive socialism," carrying out the "four modernizations" and making China a strong modern socialist society by the year 2000. It is argued that only in this way, by expanding commodity production, will the productive forces be raised sufficiently for communist relations of production to come into being (more on this shortly). It is even argued in the pages of Beijing Review that "some must get rich first."

But, the Deng forces give the game away by their one-sided presentation of this theoretical argument. They very seldom allude to what small commodity production tends to breed, namely the capitalist mentality and small capitalists. Very rarely they will cite Lenin's comment that small-scale production breeds capitalism "daily, hourly, spontaneously and on a mass-scale." One writer denied the applicability to China of this remark because in Russia the peasants were not collectivized while in China they produced on collectively owned land. The Dengists, in fact, take little or no care to warn of the results of what these polices of increased commodity production are sowing, even though their own theoretical framework requires it. As is evident their concerns lie elsewhere, precisely with raising the level of the productive forces, increasing production, increasing profits, whatever the social cost in the short or long run.

The Dengists deny that the small-scale commodity production that is sweeping the land can breed capitalists. The only social forces that exist, they say, are the workers and peasants (corresponding to the two forms of social ownership, state ownership and collective ownership) plus the "intellectuals", who are part of the working people. Exploitation has been abolished as there is no private ownership of land or the means of production. However, the Western capitalists have no such doubts that at least small-scale capitalism is developing vigorously in China, as many articles in the press attest. This viewpoint is summed up in the comments of Jude Wanninski, a Reaganite: "never once during nine days in Peking and Shanghai did I feel I was in a Communist country. China is running, not walking down the capitalist road." (Intercontinental Press, 4-16-84)

This small-scale commodity production, while an important feature of the establishment of state capitalism in China, is not the main feature, in my opinion. The extraction of surplus value through the two dominant sectors, state-owned industry and state-guided production on the communes, makes up the decisive factor in the emerging structure of state capitalism. Since 1978 or so, there has been the crystallization of a managerial-technocratic class brought into being
consciously by the party, on the one hand, and the class of industrial workers and worker-peasants, backed by a multi-million unemployed sector, on the other. Accompanying this have been increased attention to making every enterprise profitable, improving labor discipline (removing the right to strike from the Constitution, by the way), going over to one-man management, establishing the "responsibility system" which applies to workers and management, and other phenomena that are consistent with the emergence of groups of people with different relations to the means of production and to the surplus coming from production, that is classes. Because of the low level of productive forces and standard of living in China, as well as the rejected but still somewhat influential heritage of the Cultural Revolution, the ruling class does not stand out in general by its privilege compared to, say, the Soviet Union. But already flagrant examples of high living, conspicuous consumption, etc. abound in China.

However, going back to the role of small-scale commodity production, I do think it plays a different role than it does in the Soviet Union. It is almost as if the Chinese revisionists had reasoned as follows: In the Soviet Union there is a large, "illegal" shadow economy, outside the plan, which produces good and services for which there is a demand and which the plan cannot fulfill. Wouldn't it be more rational to legitimize these phenomena and take a page from our Yugoslav brothers, by convincing the people that small-scale commodity production on a large-scale is absolutely essential for this period of socialist construction? Since Soviet hegemonism is a convenient and very useful external enemy and diversion, though, let's simply not mention the Soviet economy even as we learn from it as this might confuse the people. Whether this was their reasoning or not, small-commodity production is playing an acknowledged and proud "junior partner" role in the developing structure of Chinese state capitalism.

The above is merely an outline of some essential features and may need correction upon further investigation.
Socialism as Public Ownership of the Means of Production

The view referred to earlier that China is socialist because of public ownership of the major means of production bases itself on a narrow understanding of the relations of production in a society. The only aspect of the relations of production it considers decisive (or, in truth, pays much attention to in its theoretical justifications) is juridical ownership. The argument is basically the same as that of the Soviets or the apologists for the USSR in the U.S. Left.

The Left in China argued that the relations of production have three components: 1) forms of ownership of the means of production, 2) positions of different social groups in production and their mutual relations as determined by ownership; 3) form of the distribution of products, which depends entirely on #1 and 2. (See, for example, Shih Ta, "Productive Forces and Relations of Production," August 1975) Whether one agrees with the breakdown into three components or not, it is evident that juridical ownership is not the sole factor to be reckoned with. The actual relations of people in the factories and on the farms must be examined. Yet ownership is the one criterion the major revisionist capitalist-roaders have fallen back on, including those in the USSR.

The Left in China considered that the form of ownership of the means of production was in general decisive, but that under certain conditions mutual relations between people and the forms of distribution could play the decisive role. On this basis, Mao argued that if people like Lin Biao gained power in China, it would be relatively easy to "rig up" the capitalist system.

Similarly, the Left considered the forces of production (laborers, instruments of production, and objects of labor) generally decisive, but that under certain conditions the relations of production could play the decisive role. The Dengists explicitly state that the forces of production are always decisive and that it was an error to think otherwise. They believe the relations of production must always conform to the forces of production. By the same reasoning, they consider the form of ownership to be decisive, and, as with the nature of the Soviet union, basically avoid the theoretical issue of the relations of people in production itself.

The view of Mao and the Left in China attempts to view the relations between forces of production and relations of production, and between ownership and the other relations of production in a dialectical way, upholding that in some circumstances the "lesser" aspect of the contradiction may play a dominant role. In the very longstanding tradition in the Communist movement, which is well laid out by the Indian Communit K. Venu in Philosophical Problems of the Revolution, the Dengists uphold the mechanical materialist view that under all conditions the forces of production hold the dominant aspect. It is with complete justification, despite their denials, that the Dengists have been charged with being upholders of the "theory of productive forces." Indeed, a clearer "case history" would be hard to find.
It is interesting that in seeking precedent authority in the Communist movement for their view on the relation between the forces of production and the relations of production, the Deng group calls on Stalin for assistance (7.293). They go the whole hog, approving his basic law of socialism ("securing the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of higher techniques"), the law of balanced, proportionate development of the nationalistic economy and the law of value. (Mao critiqued these views of Stalin in the collection Critique of Soviet Economics.) Many of these theoretical justifications do not contradict current Soviet practice, although the Chinese do not publicly comment on the experience of the Soviet Union in recent decades for reasons touched on previously.

Upholding Stalin on Class Struggle

The present leadership in China considers that class struggle continues but in a very limited way. Here they cite the 1936 Soviet Constitution which speaks of the abolition of classes, noting only that "Stalin" went too far by not seeing that there were remnants of classes and that class struggle would continue to a limited extent. Like the USSR in that period also, they consider that the three major social forces are workers, peasants and intellectuals, but that all are markedly transformed under socialism inasmuch as all are partial owners of the means of production. These views, too, were refuted by Mao, of course, and as these are some of the foundations of ORU's points of unity, I will not dwell on them further here.

A concluding note: For a group such as ours that believes the USSR is state capitalist, the same conclusion stares one in the face with regard to China. In a striking way, some of the same phenomena develop and some of the same theoretical justifications are used.
Appendix

In examining the political-economic situation of Russia in 1918 Lenin wrote:

"No one, I think, in studying the question of the economic system of Russia, has denied its transitional character. Nor, I think, has any Communist denied that the term Socialist Soviet Republic implies the determination of Soviet power to achieve the transition to socialism, and not that the new economic system is recognised as a socialist order.

"But what does the word 'transition' mean? Does it not mean, as applied to the economy, that the present system contains elements, particles, fragments of both capitalism and socialism? Everyone will admit that it does. But not all who admit this take the trouble to consider what elements actually constitute the various socio-economic structures that exist in Russia at the present time. And this is the crux of the question.

"Let us enumerate these elements:

1) patriarchal, i.e., to a considerable extent natural, peasant farming;
2) small commodity production (this includes the majority of those peasants who sell their grain);
3) private capitalism;
4) state capitalism;
5) socialism."  (CW 27.335-36)

By state capitalism in this context, Lenin meant "the development of capitalism, controlled and regulated by the proletarian state." (CW 32.458) The chief form this took was concessions or leases to foreign capitalists. As Lenin described the concessions elsewhere, "The capitalist operates as a contractor leasing socialist means of production, making a profit on his capital and delivering a part of his output to the socialist state." (CW 32.297) By socialism in this context Lenin meant chiefly large-scale production totally under the ownership and control of the proletarian state.

Lenin summed up the struggle taking place, speaking "in terms of economic categories", in this way: "It is not state capitalism that is at war with socialism, but the petty bourgeoisie plus private capitalism fighting together against both state capitalism and socialism."

As the above quotes indicate, Lenin did not mean by state capitalism what we mean when we say that the USSR is state capitalist today. He lived before that historical development took place. In fact his writings on this subject reflect a limitation common to even the most far-sighted communists at the time: the tendency to link the meaning of socialism too much with public ownership of the means of production, large-scale production and accounting (even "electrification")!, and not enough with the other relations of production.

Nonetheless, Lenin's method was sound and it should be similarly useful to examine what the main socio-economic structures in China have been since the mid-70's.
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