

## ***Research Report***

# **The Policy-Making and Political Economy of the Abolition of Private Ownership in the Early 1950s: Findings from New Material\***

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**ABSTRACT** The private sector has become an indispensable part of Chinese economic growth since its revival from the early 1980s. This raises the issue of the justifiability of the abolition of private ownership by the socialist transformation from 1953. Many Chinese intellectuals now suggest the CCP put an end to New Democracy too early. With new material released since the 1980s, the author argues that the private sector had sharply declined under New Democracy as the Party tried to boost the development of the private economy in default of a market economy. This article substantiates the view that the implementation of the New Democracy policy during 1949–52 was significantly moulding and re-defining the policy goal towards the private economy.

The private sector now accounts for about one-third of the Chinese economy, becoming an indispensable part of the socialist economy. Its success raises the issue of the justifiability of the Chinese Communist Party's (CCP) abolition of private ownership as early as a couple of years after the founding of the People's Republic of China (PRC). It is notable that the Party's policy rhetoric towards the private sector in the founding years of the PRC leaned towards toleration and even encouragement of its development. Under the policy framework of "New Democracy," put forward by Mao Zedong in 1940, the Party promised that all private firms, except for those owned by foreign and bureaucratic capitalists, were to be allowed to carry on their business for a fairly long period even under Communist rule, because the Chinese economy was so backward that it still needed capitalism to boost its economic development. However, the promise was only kept until 1953 where the Party suddenly promulgated the "General Line for the Transition Period," adopting a policy of "socialist transformation of capitalist industry and commerce" – that is, gradual nationalization of the private sector.

Under the proliferation of private enterprises from the 1990s, some Chinese intellectuals overtly demur at this policy change in the early PRC. They suggest that the re-legitimization of the private economy put China back to the track of New Democracy and that the "Primary Stage of Socialism" – the current development stage of China under the official

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theory – is an extension of New Democracy.<sup>1</sup> Others criticize that the Party should not have put an end of the stage of New Democracy so early.<sup>2</sup> A renowned Chinese economist at the Chinese Academy of Social Sciences (CASS), Xiao Liang, launched a blunt attack on the Party line, judging that the transformation was absolutely wrong.<sup>3</sup>

Why did the Party change its policy line at that time? In most accounts in Western literature, the Party policy towards the private economy in the early years of the PRC was a sort of premeditated plan for taking over the economy. The toleration, in the typical account, was considered a *modus vivendi* to enlist private businesspeople temporarily in economic reconstruction in the aftermath of the civil war.<sup>4</sup> Although purported disagreements between a pro-state-sector Mao Zedong and a pro-private-sector Liu Shaoqi, revealed by the anti-Liu faction during the Cultural Revolution, provide a plausible reason for the policy shift in the wake of Liu's fall, this interpretation soon proved to be untenable.<sup>5</sup> There was no empirical evidence to suggest any line struggle between Mao and Liu under Mao's court rule.<sup>6</sup>

Some scholars associated the policy change with the Korean War. They suggested that while the CCP regarded the war as an external threat to the survival of the revolution, it also immediately changed its moderate domestic policies into repressive ones.<sup>7</sup> However, this argument does not stand up to careful scrutiny. The war was no doubt directly linked to the subsequent Suppression of Counter-revolutionaries Campaign and the Thought Reform Campaign. However, it did not induce the outbreak of the anti-bourgeoisie Five-anti Campaign in early 1952, which was usually regarded as a key signal of the policy change. The campaign was launched more than a year after the outbreak of the Korean War. Conversely, it benefited those capitalists who accepted the proliferating state processing contracts. Primary sources also belied any causal rela-

1. For example, see Fang Gongwen, "Shehuizhuyi chujie jieduan yao bu xinminzhuzhuyi de ke" ("The primary stage of socialism is to make up for the lesson of New Democracy"), *Nanfang jingji* (*South China Economy*), No. 106 (February 1998), pp. 12–14.

2. See Wang Zhi and Wen Hongyu, "Xinminzhuzhuyi shehui lilun de chuangzhi yu fangqi" ("Creation and abandonment of the theory of New Democracy society"), *Dang de wenxian* (*Documents of Party*), No. 73 (2000), pp. 51–55.

3. Xiao Liang, "Siying jingji fazhan de ruogan lilun zhicheng" ("Theoretical bases of private economic development"), *Zhongguo shehui kexue jikan* (*Chinese Social Sciences Quarterly*), No. 32 (Winter 2000), pp. 71–78.

4. See George N. Ecklund, "Protracted expropriation of private business in communist China," *Pacific Affairs*, Vol. 36, Issue 3 (Autumn 1963), pp. 238–249; Doak Barnett, *Communist China: The Early Years 1949–55* (London: Pall Mall Press, 1964), pp. 162–173; Stephen Uhalley, *A History of the Chinese Communist Party* (Stanford: Hoover Institution Press, 1988), pp. 93–109.

5. See Kenneth Lieberthal, "Mao versus Liu? Policy towards industry and commerce, 1946–49," *The China Quarterly*, No. 47 (July/September 1971), pp. 494–520.

6. This is the term used by Frederick C. Teiwes to label the nature of politics in Mao's China. See his *Politics at Mao's Court: Gao Gang and Party Factionalism in the Early 1950s* (Armonk: M.E. Sharpe, 1990).

7. See Maurice Meisner, *Mao's China and After: A History of People's Republic* (New York: The Free Press, 1986), p. 80; Carl Riskin, *China's Political Economy: the Quest for Development since 1949* (New York: Oxford University Press, 1987), p. 46

tionship between the war and the campaign, though the campaign did help finance the war.

From an economic perspective, some pointed out that the implementation of the First Five-Year Economic Plan from 1953 had to include the abolition of private ownership, because of the incongruity between the private sector and the planning.<sup>8</sup> This account made much sense in retrospect. However, did the Party leaders realize this logic as soon as they had taken over China? Did the economic laymen make the policy in accordance with their forecast of the incompatibility? All in all, Western accounts tended to be a logical re-articulation of historical “stories” *ex post facto*, but without adequate reference to primary sources of material, because of their inaccessibility before Deng Xiaoping’s reform.

Most Western literature overlooked two critical issues. First, the nationalization of the private economy in China was not carried out by means of confiscation but by state capitalism, that is state-private joint economic activities. Why? Secondly, the policy of encouraging private economic development was written down in formal Party documents, “consensus papers” legitimizing subsequent actions of policy-making. The CCP’s leaders were very circumspect in drafting these papers and were serious about the bureaucracy’s compliance with them. After the Anti-Right Campaign, central leaders kept to this line and still assured capitalists of the continuity of capitalism. Some scholars noted this critical point, but evaded further elaboration.<sup>9</sup>

Chinese sources released since the reform era shed new light on the policy process. They help to solve the above puzzles and to make more sense of the decision-making process. Based upon the new sources, this article suggests that Party leaders had a particular mindset that could not come across in terms of modern “common” sense. They did believe in compatibility between the private economy and a state-owned and command economy during the first years of the PRC. They even proposed developing the private economy under the plan control. State capitalism was initially considered a way to develop the private sector under plan guidance, not to nationalize it as Western accounts supposed. Of course, an attempt to boost the private economy in default of a market economy was futile, as predicted by current common sense. Later on, the Party leaders also “sought the truth from the fact.” However, Mao further gathered that the “failure” of the private economy signalled the “superiority” of the socialist sector and state capitalism was a means of gradually transforming the private sector into a socialist sector.

This article makes sense of the policy-making towards the private economy through re-constructing the policy process based upon the new sources and in line with the particular perception of CCP leaders. It

8. See Yuan-li Wu, *An Economic Survey of Communist China* (London: Constable and Company Ltd., 1956), pp. 193–96; Bill Brugger, *China: Liberation and Transformation 1942–1962* (London: Croom Helm Ltd., 1981), p. 120.

9. Barry M. Richman, *Industrial Society in Communist China* (New York: Ransom House, 1969), pp. 895–96; Willy Kraus, *Private Business in China: Revival between Ideology and Pragmatism* (Honolulu: University of Hawaii Press, 1991), p. 58

argues that the policy was a process of “seeking truth from fact,” as pursued by the post-Mao leaders. However the value judgement of facts for Maoists was different from that for Dengists. The process of “seeking truth from fact” was a function of the interaction between policy-making and implementation, and between central and local officials. Feedback from policy implementation and local officials significantly shaped policy-making.

### *New Sources and Two Key Facts*

The new sources of material include a huge collection of documents on the socialist transformation of capitalist industry and commerce published by the Party History Research Office in the early 1990s. This collection consists of over 20 volumes, containing original documents and economic data ranging from the central to local administrative levels.<sup>10</sup> In addition, a volume of economic archival material covering the period from 1949 to 1952, compiled by CASS and the central archive, provides valuable economic material about the first years of the PRC.<sup>11</sup> Various original documents about policy-making at the top echelons, released by the journal *Dang de wenxian* (*Documents of the Party*) and research articles written by Party historians, published mainly in *Zhonggong dangshi yanjiu* (*Research on Party History*) provide crucial information about the Party’s decision-making processes. Original material is also found in the collected works of various top Party leaders, including Mao Zedong, Liu Shaoqi and Chen Yun. Among them, Mao’s *Jianguo yilai Mao Zedong wengao* (*Manuscripts of Mao Zedong since the Founding of the PRC*) significantly enriches understanding of Mao’s changing political stances during the founding years.

Another important source is memoirs. They include writings of three major Party figures: Bo Yibo, Li Weihai and Xu Dixin. Bo, one of the central economic policy-makers in the early PRC, was the minister of finance in 1949–53. His memoir offers a general background of the political decisions of the early years. Li was head of the United Front Work Department from 1949 to 1964. He was one of those in charge of the transformation programme in 1953. Xu, who had been the chief of Shanghai’s Bureau of Industry and Commerce from 1949 to 1952, was one of Li’s deputies in charge of the transformation from 1953 and was deeply involved in the policy-making and implementation. The documentary record from the early 1950s provides indispensable material to verify the new material and it underlines the policy messages received in the early 1950s by the public.

Two key historical facts are clarified by the new material and are the

10. The collection is entitled *Zhongguo zibenzhuyi gongshangye de shehuizhuyi gaizao* (*Socialist Transformation of Chinese Capitalist Industry and Commerce*), published by the Party History Publishing House in 1991–93.

11. *Zhonghua renmin gongheguo jingji dangan ziliao xuanbian* (*Selected Economic Archives of the PRC*), industry and commerce section: 1949–1952 (Beijing: Zhongguo shehui kexue chubanshe, 1993).

basis of my argumentation. First, as foreshadowed, the Party indeed changed its policy towards the private sector in 1953. In the old official history account, the policy towards the private sector since 1949 was summed up as one of “use” (*liyong*), “restriction” (*xianzhi*) and “transformation” (*gaizao*), which was commonly cited by most Western literature. The “use” aspect meant the Party would make use of the private economy to develop the Chinese economy. On the other hand, its development should be confined to a sphere that would not endanger the leading status of the state-run economy. This was the aspect of “restriction.” The “transformation” aspect, that is socialist transformation, as such was to change gradually over the private ownership. By contrast, all concerned Chinese historical writings based upon the new materials point out that before 1952–53, the approved policy towards the private economy was only one of “use” and “restriction.”<sup>12</sup> The term “transformation” was officially inserted into the policy in 1953 and the revised policy was endorsed retrospectively as though it had been made in 1949.

How did the Party justify the endorsement? When in 1953 it determined to employ state capitalism to carry out the socialist transformation, state capitalism was already existing and structurally “transforming” the private sector, but without being driven by any well-defined policy. The adoption of state capitalism to transform the private sector was the second key fact. It referred to various modes of state–private joint business activities, ranging from the state purchasing goods from private firms or placing processing orders with private firms, to forming public–private joint ventures. Before 1953, state capitalism was a loose concept without a coherent policy-oriented meaning. State–capitalist economic activities could be traced back to the civil war era, when the Party primarily aimed at spurring the economic recovery in communist-ruled areas. The Party conceptualized these practices *ex post facto* as state capitalism. Before the formulation of the General Line for the Transition Period, no one realized the prospects of the state capitalist economy. According to Li Weihai, since the government was occupied with works of economic recovery and other urgent issues during the Korean War, there was no time to conduct an investigation into the state–capitalist economy. Moreover, the then “guiding thought” (*zhidao sixiang*) had not yet clearly considered it as a vehicle to carry out the socialist transformation and nationalization.<sup>13</sup> Xu Dixin recalled that at the beginning he simply regarded state purchasing and contracting as a stopgap measure to ensure military supplies and as sources of products for the state commercial outlets.<sup>14</sup>

12. For example, see Wang Binlin (ed.), *Zhongguo gongchandang yu siying zibenzhuyi* (*CCP and Capitalism*) (Beijing: Beijing shifang daxue chubanshe, 1995), pp. 291 *et seq.*

13. Li Weihai, *Huiyi yu yanjiu* (*Reminiscences and Studies*) (Beijing: Zhonggong dangshi ziliao chubanshe, 1986), pp. 738–739.

14. Xu Dixin, “Dui woguo gaizao zibenzhuyi gongshang licheng de huiyi” (“My recollection on the transformation of capitalist industry and commerce”), in *Zhonggong dangshi ziliao* (*Materials on CCP History*), Vol. 14 (Beijing: Zhonggong dangshi chubanshe, 1985), p. 66.

Forming joint public–private enterprises (JPPE), which was later considered the final step of the socialist transformation of private enterprises, was also not actively promoted during the recovery years. Sources show that the Party centre and central officials were hesitant to promote the development of JPPEs. When local officials at Shangqiu in Henan were found to be actively investing in private enterprises to develop JPPEs in July 1949, the Central China Bureau immediately issued a directive to prohibit this practice.<sup>15</sup> In April 1950, Zhou Enlai directed all executive branches that they should only select for joint ventures those enterprises which were “beneficial to national welfare and people’s livelihood” and which could benefit both the public and the private sides.<sup>16</sup> Chen Yun shared Zhou’s viewpoint at that time.<sup>17</sup> Xu Dixin, in a 1949 publication, had had reservations about JPPEs on the grounds that capitalists still possessed the shares of JPPEs, exploiting the surplus value.<sup>18</sup>

Initially, forming JPPEs was aimed at resolving the problems of enterprises that had been composed of shares of bureaucratic capitalists and national capitalists (*minzu zibenjia*), and of Japanese and national capitalists concurrently. In order to enforce the principle of protecting the private property of national capitalists, the JPPE was a compromise. Some capitalists who found it difficult to continue their businesses demanded government investment, forming joint ventures with the government, but the government was sometimes unwilling to accept their demand. First, the government did not have enough capital and manpower to allocate to these enterprises. Secondly, the Party was worried that the active development of JPPEs would mislead other capitalists into surmising that the motivation behind it was to nationalize their enterprises ahead of time. This might cause trepidation among capitalists.<sup>19</sup> At the same time, the Party suspected that capitalists might exploit state capital to pursue their own profits and even strip off the capital.<sup>20</sup>

The shifting goal of state capitalism after 1953 attests to my contention that the policy implementation was significantly shaping the decision-making of the Party leadership. A Party historian compared the adoption of state capitalism as a means of the socialist transformation in 1953 to “sowing melon seeds, harvesting beans” (*zhongguo dedou*).<sup>21</sup> This means

15. *Zhongguo zibenzhuyi gongshangye de shehuizhuyi gaizao (Socialist Transformation of Chinese Capitalist Industry and Commerce)*, Henan Volume (Beijing: Zhonggong dangshi chubanshe, 1992), p. 44.

16. *Jianguo yilai zhongyao wenxian xuanbian (Selected Significant Documents since the Founding of the PRC)*, Vol. 1 (Beijing: Zhongyang wenxian chubanshe, 1992), p. 183.

17. *Zhongguo zibenzhuyi gongshangye de shehuizhuyi gaizao (Socialist Transformation of Chinese Capitalist Industry and Commerce)*, Central Volume (Beijing: Zhonggong dangshi chubanshe, 1993) p. 1239.

18. Xu Dixin, *Xinminzhuzhuyi de jingji (New Democratic Economy)* (Hong Kong: New China Book Shop, 1949), p. 89.

19. *Selected Economic Archives*, pp. 480, 483.

20. *Ibid.* pp. 480, 513.

21. Shui Shikai, “Lishi de biran xuanze – cong yijiuwusan nian Li Weihai de Wuhan, Shanghai diaocha tando guodushi qi zongluxian tichu de keguan yiju” (“A historical Hobson’s Choice: an objective base for Li Weihai’s investigation of Wuhan and Shanghai leading to the proposal of the general line”), *Weida de lishi chuangu (Great Historic Beginning)* (Beijing: Zhonggong dangshi chubanshe, 1991), p. 100.

that state capitalism was adopted for one purpose at its inception, but it served another purpose at the end. A key question arises: what factors in the implementation of New Democracy swayed the Party leaders, especially Mao, who veered away from his original viewpoint in 1952? There were unexpected effects caused by the state boosting the private economy in default of a market economy that were embodied by the growth of the state-capitalist economy.

*De-marketization and the Wane of the Private Sector*

As noted above, the development of the private sector under New Democracy was not unconditional and unbridled. It had to be restricted and regulated. The overall national economy was supposed to be under the dominance of the state sector. Sharing the idea of “regulation of capital” put forward by Sun Yat-sen, Mao’s New Democracy drew a line of demarcation to confine the private sector to a specific business sphere. That is, the private sector should not engage in any economic activities that would infringe upon “national welfare and people’s livelihood.” Even though it was clearly stated that only the banking and communications sectors and the largest enterprises could not be owned by capitalists, it remained vague as to how a business might make such an infringement. The message gave an impression that only those businesses closely associated with the Kuomintang would be confiscated. Other private firms could do business as usual. A slogan was highlighted that the new government would “give due consideration to both public and private interest.”

Even though the top Party leaders were convinced that the cause of economic backwardness did not lie in the existence but rather in the lack of full-fledged capitalism, at the same time they held to a conviction that capitalism entailed an anarchic and chaotic economic system. The “regulation of capital” not only referred to keeping the private sector away from certain business areas but also tried to turn it to a specific economic order. The favourable condition was that private-sector production was carried out under a unified state economic plan. As early as 1948, Liu Shaoqi proposed making use of the state-capitalist economy to regulate and organize private economic production. While he revised a report on the economic development of north-east China, submitted by Zhang Wentian, the then minister of the organization department of the North-east Bureau, Liu added that the Party

should make use of state capitalism to absorb a fairly large proportion of private capital into the national economic system. This enables the proletariat-led New Democratic state step-by-step to organize the whole social and national production and distribution, the national economy, so to speak, in a feasible and an essential way, to make it a planned economy, and gradually avoid anarchy and economic panics under the capitalist economy.<sup>22</sup>

22. See *Zhang Wentian xuanji (Selected Works of Zhang Wentian)* (Beijing: Renmin chubanshe, 1985), p. 399 and *Liu Shaoqi lun xinZhongguo jingji jianshe (Liu Shaoqi's Ideas on New China's Economic Construction)* (Beijing: Zhongyang wenxian chubanshe, 1993), pp. 32–33.

However, the report had not been circulated within the Party. Liu just toyed with the issue at that time, but similar ideas were canvassed later. For example, in response to some capitalists who proposed to expand their investment, in October 1949 the North-east Bureau proposed to try to involve future private investment in the state plan and this opinion was concurred with by the Party centre.<sup>23</sup> Substantive measures were also floating while policy makers widely dealt with the private sector in terms of “Economic Reorganization” (*jingji gaizu*) from 1950 on. The “Economic Reorganization” was a compromise between the ongoing existence of the private sector and its conflict with the new-born state sector. In short, the solution was to de-marketize the operation of the private sector by strengthening state involvement in private economic activities. This solution was gradually formulated during the implementation of New Democracy.

From 1949 to 1951, central Party policy towards capitalism stressed the “tolerant” or “use” aspect. Although the policy suffered a backlash from local officials, the Party centre kept to this line.<sup>24</sup> In response to anti-capitalist sentiments, Mao, at the third plenum of the seventh central committee in June 1950, exhorted the communists not to create too much discontent among capitalists and not to “hit out in all directions.”<sup>25</sup> Shortly before that, on 13 April, the central government had ordered an improvement of the public–private relationship (the relationship between the public sector and the private sector) so as to accelerate the economic recovery.<sup>26</sup> A conference of the chiefs of the Bureaus of Industry and Commerce of seven large cities was convened in Beijing in April–May to formulate measures to assist the private economy. Chen Yun at the conference put forward a package of pro-capitalist “adjustment” measures to assist the production of the capitalist sector. These included the state sector making concessions to the private sector in the field of business operations, and expanded state contracts with and government loans to the private sector. From June 1950, the private economy gradually recovered. From 1949 to 1951, the gross value of private industrial output increased by 48 per cent.<sup>27</sup> The output of some industrial sectors increased by over 100 per cent.<sup>28</sup>

However, the “adjustment” was unable to settle the tension between the two sectors entirely. The thorny problem was whether the private sector was allowed to compete with the state sector or whether both

23. See *Jianguo yilai Liu Shaoqi wengao (Manuscripts of Liu Shaoqi since the Founding of the PRC)*, Vol. 1 (Beijing: Zhongyang wenxian chubanshe, 1998), pp. 95–97.

24. As early as the First National United Front Work Conference in March–April 1950, many local Party cadres advocated abolition of private ownership. See *Jianguo yilai Mao Zedong wengao (Manuscripts of Mao Zedong Since the Founding of the PRC)*, Vol. 1 (Beijing: Zhongyang wenxian chubanshe, 1987), pp. 292–94.

25. *Selected Works of Mao Tse-tung Vol. 5* (Peking: Foreign Languages Press, 1977), pp. 35–36.

26. *Selected Economic Archives*, p. 826.

27. *Ibid.* p. 731.

28. Iron and steel industry (338.46%); machine building industry (356.38%); metallurgical industry (198.71%); chemical processing industry (143.36%); rubber industry (188.79%); papermaking industry (137.93%). See *ibid.*

simply divided up the business domain lest they compete with each other. As for private commerce, since the unification of national finance in March 1950, the consumer market had fallen into depression. The private retailing business was the first to suffer. One of the reasons was the rapid reduction of currency circulation. Competition from the state retailing shops worsened the situation. Although the state made concessions to private businesspeople in the 1950 “adjustment,” it did not withdraw the confrontation between both sides in all fields. Some businesspeople complained that the state sector was “competing with the people over profits” (*yumin zhengli*). In order to sustain business, some private businesspeople changed their strategy to try to escape the unfair competition from the state sector. For instance, two famous private department stores, Wing On and Sincere in Shanghai, avoided selling those types of commodities which were sold by the state retailing stores. On the other hand, in order to liquidate their stock as soon as possible, they also dumped their goods, so their selling prices of certain commodities were lower than the state’s. These practices were criticized by the central financial and economic committee as cheating consumers and ruining the reputation of the public and state sector.<sup>29</sup>

The Party leaders at the outset felt confident that the “superiority” of the state sector could eliminate the private sector by free competition. In a comment drafted by Chen Yun and Bo Yibo, they reasoned that the competition was inevitable and normal given the co-existence of the public and the private sectors. It was not harmful to the national economy and state trading agencies. They also called for improving the management of the public sector and for cost reduction to compete with the private sector, but not for using political means to intervene in the operation of the private sector.<sup>30</sup> In 1951, officials of co-operatives concurred that they would gradually replace private commerce by free competition.<sup>31</sup> However, the subsequent reality was that the state trading agencies or co-operatives failed to scramble for the markets of private commerce. It was especially salient that they were unable to replace the role of scattered small merchants and peddlers.

Even though the Party urged the private sector to improve its own efficiency, an ambivalent attitude within the Party was anxious about a subsequent strengthening of capitalists. A threat came from the increasing tendency of joint operations among private firms. During the first two years of the PRC, the Party encouraged private firms to organize joint operations (*lianying*) to enhance efficiency and simultaneously facilitate the supervision of the state.<sup>32</sup> The Provisional Regulations of Private Enterprises approved by the end of 1950 also encouraged capitalists to

29. *Siyang shangye shehuizhuyi gaizao wenjian xuanbian (Selected Documents of the Socialist Transformation of Private Commerce)*, Vol. 1 (Beijing: Zhongguo shangye chubanshe, 1982), pp. 164–65.

30. *Zhonggong dangshi jiaoxue cankao ziliao (Teaching Reference Materials on CCP History)*, Vol. 19, p. 173.

31. *Socialist Transformation*, Central Volume, p. 225.

32. See the editorial in *Renmin ribao (People’s Daily)*, 17 June 1950.

organize joint operations.<sup>33</sup> Since the end of 1950, some industrialists and merchants had been organizing themselves together spontaneously or under the auspices of the state sector. The Party was worried by the former, which threatened the leadership of the state sector, especially for the joint operation among merchants. On this issue, officials' opinions were divided. The central officials tended to be optimistic, whereas local ones were pessimistic. Xue Muqiao, the director of the Central Private Enterprise Bureau, asserted in an explanation on the Provisional Regulations of Private Enterprises:

Some people worry about whether the joint operations or joint ventures will develop into a trust or syndicate like in the capitalist countries. We think that it will not. The reason is that our regime comes under the people's democratic dictatorship with the alliance between workers and peasants that is based upon the leadership of the workers. Furthermore, the state-run economy holds the leading status. The joint operations under the leadership of the People's Government and state-run economy can by no means develop into monopoly capital, so this anxiety seems groundless.<sup>34</sup>

The Minister of Trade, Ye Jizhuang, in his report to a conference on 27 March 1951, shared this viewpoint and suggested that the joint operations held more advantages than disadvantages. He contended that the rise of joint public-private operations and joint private-private operations was a signal of advance. The development could easily put the private sector under the state's leadership, and would gradually expand the influence of planning and diminish "blindness."<sup>35</sup>

However, in the wake of the preliminary implementation, rather different opinions were echoed by localities. A directive drafted by the Central South Bureau dated 16 August 1951, which was later endorsed and circulated by the Party centre, complained that capitalists exploited the joint operation by embarking on monopolization and tax evasion, hiding capital and firing employees. In addition, larger capitalists took advantage of joint operations to manipulate smaller capitalists.<sup>36</sup> It further pointed out that the joint private-private operations could not eliminate "blind" competition, since this had not changed the essence of capitalism. It also implicitly refuted the opinion of Xue and Ye. It contended:

Certain comrades think: since joint operations and joint ventures could reduce the cost of private enterprise and increase profits, then it is progressive and should be encouraged. They have not considered this problem with regard to the national welfare and people's livelihood, and have not distinguished industry from commerce ... The concentration of commercial capital might be an advantage and a disadvantage as well ... The increase of [commercial profit] and the concentration of capital always induces their speculative ambition of manipulating the market.<sup>37</sup>

33. Article 5 of the Regulations encouraged the organization of joint operation. See *Selected Significant Documents*, p. 517.

34. See *Siying gongshangye de shehuizhuyi gaizao faling xuanbian (Selected Laws and Regulations of the Socialist Transformation of Private Industry and Commerce)*, Vol. 1, 1949–52 (Beijing: Caizheng jingji chubanshe, 1957), p. 96.

35. *Selected Documents of the Socialist Transformation*, p. 229.

36. *Selected Economic Archives*, p. 679.

37. *Ibid.* p. 680.

This criticism, which was primarily aimed towards the commercial sector, drew the Party centre's concern. By the end of 1951, the Party centre transmitted to localities a reference comment on the joint operations in commerce, which was revised by Mao. It noted that only joint operations under the leadership of the state economy were beneficial to the Party, whereas the spontaneous private joint operations of merchants without government direction were rivals to the state trading sector and co-operatives, even though lawful.<sup>38</sup> Although the Party centre had not prohibited this mode of private joint operations, its opinion was somewhat negative.

The Party's opinion was no more positive about the joint operations of private industry, which it condemned as "legally struggling" against the state sector. It claimed that the industrialists were taking advantage of joint operations to cheat the government and to compete against the smaller industrialists and handicraftsmen or with each other.<sup>39</sup>

To avoid the potential menace of capitalism but at the same time maintain the operation of the private sector, a division of labour by both sides might be a compromise. According to a Party central document dated April 1950, Mao agreed with the capitalists' appeal for such a "division of labour between the state and the private sectors."<sup>40</sup> The central financial and economic committee and the North China Bureau in early 1950 had imposed corresponding "concession" measures upon the trading sector, yielding some business areas to private merchants.<sup>41</sup> However, sentiment within the Party was growing against this. In fact, local officials started increasingly to inhibit certain private commercial businesses and objected to merchants' appeals for a "division of labour." For example, the wholesalers of Chinese medicine in Shanghai were reduced by the state-run native product company to a role only as sub-wholesalers. In 1950, the wholesalers requested a division of labour between the two sides so that the state trading agency would undertake the task of purchaser, while the private merchants would act as the retailers. This request was criticized as attempting to be "on a par with" (*pingfen qiuse*) the state sector.<sup>42</sup> Shortly after the implementation of the "adjustment" policy, businesspeople in certain industries also requested a division of the business fields between the state and the private sector. The official media criticized this as blurring the meaning of the slogan "giving due consideration to both public and private interest" and also as attempting to be "on a par with" the state sector, and as ignoring the "leading" status of the state-run economy.<sup>43</sup>

38. *Ibid.* pp. 682–83, and see *Manuscripts of Mao Zedong*, Vol. 2 (Beijing: Zhongyang wenxian chubanshe, 1988), pp. 602–603.

39. *Selected Economic Archives*, pp. 692–697.

40. *Manuscripts of Mao Zedong*, Vol. 1, p. 293.

41. See *Socialist Transformation*, Central Volume, p. 161 and *Selected Documents of the Socialist Transformation*, p. 220.

42. *Shanghai shi siying zhongyao shangye shehuizhuyi gaizao ziliao (taolungao)* (*Materials of the Socialist Transformation of the Private Chinese Medicine Business in Shanghai, manuscript*), 29 April 1959, p. 97.

43. For example, see *Jiefang ribao* (*Liberation Daily*), 21 June 1950.

In response to the state–private conflict, Chen Yun, the then vice-premier and director of the financial and economic committee, compromised by resorting to “Economic Reorganization.” The slogan of “Economic Reorganization” was put forward by Mao at the third plenum. The slogan had no concrete meaning at that time, but Chen embodied it by imposing measures to ease the public–private conflict. It should be noted that the Party was more in favour of the industrial than the commercial sector, because it considered commercial trading as a “non-productive” business. Article 37 of the Common Programme, the provisional constitution approved in September 1949, overtly stipulated: “... [the state] should protect all lawful public and private trading businesses ... but must prohibit all speculative merchants who disturb the market ... The People’s Government ... should direct idle capital and commercial capital which is not beneficial to national welfare and the people’s livelihood towards industrial and other productive businesses.” Accordingly, the “Economic Reorganization” was to try to move merchants into other businesses, instead of confiscating their business property. For instance, since the adoption of the unified purchase of cotton yarn in January 1951, the wholesalers of cotton yarn had no choice but to run other businesses. In Shanghai, they were organized to reinvest in the production of vacuum flasks and the dyeing industry. As a result, their number was reduced from 326 in 1950 to 48 in 1951.<sup>44</sup> However, the number of people working in the commercial sector, especially at the retailing level, was too massive to provide other placements for them. The state trading sector was not yet able to replace the extensive private trading web. Until 1953, the Party had not made great strides in commercial “Economic Reorganization.” The number of commercial firms was only slightly reduced from 4.5 million in 1951 to 4.1 million in 1953.<sup>45</sup>

As for private industry, Chen Yun proposed making use of state production contracts with capitalists to “fasten” the private industry to socialism – later understood as a mode of the state-capitalist economy.<sup>46</sup> Chen considered the state contracts as a vehicle to solve the “blind” production of the private sector and simultaneously to lead the private sector in the direction of a planned economy. During the period between 1949 and 1952, the share of the marketed output of private industry sharply declined (see Table 1).

The consequences of de-marketization also included a dual-track price system. As the market had not been completely abolished, a market price and an official price for certain goods coexisted. Some merchants traded on the price difference to speculate.<sup>47</sup> This happened again three decades

44. *Zhongguo zibenzhuyi gongshangye de shehuizhuyi gaizao (Socialist Transformation of the Chinese Capitalist Capitalist Industry and Commerce)*, Shanghai Volume: Part 2 (Beijing: Zhonggong dangshi chubanshe, 1993), p. 1060.

45. *Zhongguo gongshang xingzheng guanli tongji sishinian (Forty Years of the Industrial and Commercial Administration of China)* (Beijing: Zhongguo tongji chubanshe, 1992), p. 130.

46. *Chen Yun wenxuan (Selected Works of Chen Yun)*, Vol. 2 (Beijing: Renmin chubanshe, 1984), p. 93.

47. *Selected Documents of the Socialist Transformation*, p. 164.

**Table 1: The Share of Private Industrial Output for the Market and for State Contracts during 1949–1952 (%)**

	1949	1950	1951	1952
Output for the market	88.12	71.17	57.29	43.96
Output for the state contracts	11.88	28.83	42.71	56.04

Source:

*Zhonghua renmin gongheguo jingji dangan ziliao xuanbian (Selected Economic Archives of the PRC)*, industry and commerce section: 1949–1952 (Beijing: Zhongguo shehui kexue chubanshe, 1993), p. 739.

later in the semi-marketized Deng era. The concession policy adopted after April 1950 had relaxed controls over the market and the economy had prospered, but the prosperity was at the expense of market control, and the government was moving to restore control measures again, thereby stepping up the process of de-marketization.<sup>48</sup>

During the four years before the promulgation of the General Line for the Transition Period, the new government faced a number of dilemmas. It needed to fulfil its promise to allow the development of the private economy, minimizing administrative intervention in the private sector and simultaneously ensuring stability in the economy that would not be disrupted by the “bad business style” of capitalism. It envisaged at the beginning that both the state and the private sectors would develop concurrently and coexist peacefully, but the former would develop much faster and could replace the latter in the long run naturally because of its “superiority.” The Party assumed that the private sector could very possibly co-operate with and supplement the development of the state sector. The Party adopted the measures of the “Economic Reorganization” to make sure of the compatibility between the two sectors. But it was not very successful.

The state sector had not demonstrated its “superiority” over the private sector, but the other way round. Local officials as well as Mao, who was probably influenced by local reports, then turned on capitalists, charging them with challenging the communist leadership through “competition.” They felt uneasy about any action of capitalists that might strengthen their power and/or any profits achieved through the loopholes of economic policies, and they accused capitalists of forming joint operations to challenge the state leadership. The state bureaucrats at the local level generally tended to distrust the capitalists. Based either on ideological bias or on the interests of the state-run economic system, many of them from the outset sought to retard the growth of the private economy.

The behaviour of capitalists was redirected by the economic policy and institutional setting erected by the Party. The capitalists could be allowed

48. On 20 October 1950, the financial and economic committee ordered a strengthening of management over the market that mainly aimed to prohibit speculative activities. See *ibid.* p. 168.

neither to compete with the public sector nor to have their own way in the market economy. To reduce the capitalists into contractors with the state was an expedient to sustain the policy of “toleration.” However, it made a negative impact on the behaviour of businesspeople. Ding Lu indicated that the high degree of dependence upon the state contracts resulted in “rent-seeking” behaviour by capitalists.<sup>49</sup> According to the newspaper coverage of the time, the capitalists had less incentive to reduce production costs and improve the quality of products, and even purposely wasted raw materials and paid unwarranted higher wages so that they could claim higher processing charges and the price of the products.<sup>50</sup> Another consequence was the growth of bribery between government officials and capitalists, since it became ever more critical for the latter to obtain economic information from related government officials and secure state contracts. The Party leaders were later aware of these phenomena but attributed all of them to the “evil” essence of capitalism. It resulted in the first range of large-scale urban mass campaigns after 1949 – the Three-anti and the Five-anti Campaigns at the end of 1951 and in early 1952.

These two campaigns originated from north-east China, which was governed by “leftist” Gao Gang, and rapidly spread nation-wide. The first aimed at fighting against the three “evils” of the government officials: corruption, waste and the bureaucratic abuse of power. The second aimed at fighting against the five “poisons” of the bourgeoisie: bribery, tax evasion, theft of government property, incorrect fulfilment of government jobs and the employment of economic data for private benefit.<sup>51</sup> The outburst of the Three-anti and the Five-anti Campaigns should be attributed; as mentioned above, to the Party’s economic policy, which nurtured rent-seeking behaviour.

As a consequence of the campaigns, private businesspeople were terrified. Even after the climax of the campaigns, local officials continued to impose harsh measures upon capitalists in the belief it was “better to be left than right” and to squeeze them by imposing heavy taxes.<sup>52</sup> Private business rapidly shrank in the share of turnover. In the second half of 1951, the turnover of private factories in Shanghai accounted for 78.4 per cent of all factories. After the campaigns, although their share was only reduced to 62 per cent in May 1952, the continuation of their businesses mostly relied upon the state’s processing and purchasing orders. These accounted for 81.5 per cent of their turnover during the period between March and June.<sup>53</sup>

49. Ding Lu, *Entrepreneurship in Suppressed Markets: Private-sector Experience in China* (New York: Garland Publishing, 1994).

50. See an example from *Jiefang ribao*, 2 September 1950.

51. See a study on the campaigns from John Gardner, “The Wu-fan campaign in Shanghai: a study in the consolidation of urban control,” in A. Doak Barnett (ed.), *Chinese Communist Politics in Action* (Seattle: University of Washington Press, 1979), pp. 477–539; A. Doak Barnett, *Communist China: The Early Years 1949–55* (London: Pall Mall Press, 1964), pp. 135–171.

52. See the case of Shanghai from the memoir written by Lucian Taire, *Shanghai Episode: The End of Western Commerce in Shanghai* (Hong Kong: Rainbow Press, 1957), pp. 68–75.

53. *Selected Economic Archives*, pp. 906–907.

The situation of private commerce was so bad that its turnover had not recovered to its pre-campaign level until the end of 1952. Some sectors collapsed, including hardware, motor spares, electrical devices and timber, because they were severely fined under the campaigns.<sup>54</sup> The state trading agency also manipulated the market and squeezed out merchants by various means. In June, this situation drew the attention of Chen Yun. During the Three-anti Campaign, he intended to make use of this chance to strengthen controls over the market.<sup>55</sup> However, after the Five-anti Campaign, which caused recession and unemployment, he was dissatisfied with the practice of local officials. He issued orders to confine the business share of state-run commerce to 24 to 25 per cent and fixed private profits earned from the state contracts up to 10, 20 or 30 per cent or more.<sup>56</sup>

However, Chen Yun lost the momentum to control the “leftist” tendency of localities at this time. Private commerce continued to collapse. Many merchants closed down their shops, especially in retail. This forced the Party to launch a second “adjustment of the public-private relationship” in November 1952, which mainly concerned the commercial sector. The Party reinforced the limit of 25 per cent and stipulated the wholesale and retailing price difference for necessities to be 10 to 18 per cent so as to give private retailers a profit.<sup>57</sup> However, this “adjustment” was not as successful as the first one. The localities were not very active in instituting the concession policy, while businesspeople were too cowed to invest energetically in their businesses after the campaigns.

The number of industrial plants had increased from about 120,000 in 1949 to approximately 150,000 in 1952.<sup>58</sup> The private sector achieved a 54 per cent increase in gross output. However, its share of national industrial output plummeted from 63 to 39 per cent (see Table 2). More importantly, most private firms were reduced to the status of state contractors. In Fred Rigg’s term, the businesspeople were reduced to “pariah entrepreneurs,” who were restrained from making deals outside their ties to the government.<sup>59</sup> Even though there was a real growth of the private economy in the early years of the PRC, the sector was in fact on the wane. From the perspective of Mao, however, the superiority of state ownership was proving itself ahead of time. Along with an unanticipated early victory in the civil war and completion of the land reform campaign, Mao thought it was high time to advance China into socialism, especially when he had already defined the contradiction between the working class and the national bourgeoisie as the “principal” contradiction after the Three-anti and Five-anti Campaigns.<sup>60</sup>

54. *Selected Documents of the Socialist Transformation*, p. 282.

55. David Bachman, *Chen Yun and the Chinese Political System* (Berkeley: Institute of East Asian Studies, University of California, 1985), p. 37, and cf. *ibid.* pp. 260–63.

56. *Selected Works of Chen Yun*, pp. 169, 173.

57. *Ibid.* pp. 280–292.

58. Wang Haibo, *XinZhongguo gongye jingjishi (History of Industry of New China)* (Beijing: Jingji guanli chubanshe, 1994), p. 206.

59. Fred W. Riggs, *Administration in Developing Countries: The Theory of Prismatic Society* (Boston: Houghton Mifflin Company, 1964), p. 109.

60. *Selected Works of Mao Tse-tung Vol. 5*, p. 77.

With regard to the campaigns, most existing literature portrays them as a deliberate step in the run-up to the abolition of the private economy. But it should be noted that they were not initiated by the Party centre. The Party centre just took advantage of local initiatives to switch to wielding the “stick” in a “carrot-and-stick” approach. More importantly, all central leaders still stuck to the principles of New Democracy in the months after the campaigns until Mao declared his new stance.

### *Mao's Decision to Transform Capitalist Industry and Commerce*

When Mao had proposed New Democracy in 1940, he had already worked out that this was a transition to socialism, but it was not until 1948 that he estimated how long the transition would be. At a Politburo meeting convened in September 1948, Mao for the first time touched on this point. He estimated that the socialist policy would be adopted 15 years after the nation-wide victory.<sup>61</sup> According to the recollections of Bo Yibo, during the first years of the PRC, the Party leaders had a consensus that the New Democracy stage was a transition period for fostering the growth of socialist elements. As soon as conditions were considered sufficient, China would then start to enter socialism. The duration of this transition period was expected to be about 10 to 15 or more years.<sup>62</sup>

However, Mao suddenly claimed at a secretariat meeting on 24 September 1952 that China was already in a transformation to socialism. Mao said:

We now have started a period of 10 to 15 years to basically complete the transition to socialism.... In the industrial sector, the private sector [now] accounts for 32.7% [of the total output]; the state sector 67.3%. In the retail sector, the private sector accounts for 60% [of the total turnover]; the state sector 40%. After five years, the proportion of the private sector would be further reduced, albeit it would increase in absolute value. It is none other than socialism ... After 15 years, the nature of the private industry and commerce will have changed, being a new type of capitalism – JPPEs, producing for state contracts, under workers' supervision.... They cannot get rid of the Communist Party.<sup>63</sup>

Before 1952, Mao had not worked out what the Party would do with the private sector during the transition period. He just anticipated that China would advance into socialism after the transition period. After a couple of years of the implementation of various economic policies, Mao realized that the rapid expansion of the state sector and the strengthening of Party control over the private sector gradually advanced China into socialism. As Bo Yibo commented retrospectively, Mao's re-conceptualization made sense because it was consistent with the “objective situation” at that time.<sup>64</sup>

61. See *Dang de wenxian (Documents of the Party)*, No. 5 (15 September 1989), p. 11.

62. Bo Yibo, *Ruogan zhongda juece yu shijian huigu (Reflection on Certain Major Policy Decisions and Events)* (revised edition), Vol. 1 (Beijing: Renmin chubanshe, 1997), pp. 219–220.

63. *Ibid.* pp. 220–21.

64. *Ibid.* pp. 222–23.

Table 2: **Changes of Industrial Production between 1949 and 1952**

<i>Types of Industry</i>	<i>The share of different sectors (%)</i>				<i>Indices of the gross production value</i>			
	<i>1949</i>	<i>1950</i>	<i>1951</i>	<i>1952</i>	<i>1949</i>	<i>1950</i>	<i>1951</i>	<i>1952</i>
State	34.2	34.3	32.5	38.3	100	169.1	246.6	387.1
Local state	–	10.2	12.4	14.5	–	–	–	–
Co-operative	0.5	0.8	1.0	3.2	100	224.1	415.8	172.7
Joint public–private	2.0	2.9	4.1	5.0	100	188.7	367.2	622.5
Private	63.3	51.8	50.1	39.0	100	116.6	148.2	154.2

*Source:*

*Selected Economic Archives of the PRC, industry and commerce section: 1949–1952, p. 976.*

Still, the conceptual shift on the transition period at that time was only considered a theoretical adjustment by Mao's associates, who supposed that the moderate policy line of New Democracy should remain intact. In early 1953, they sensed that the implication of the shift was more than an adjustment. The first sign was reflected by the issue of a new tax system, put forward by Bo Yibo in December 1952, which was condemned by local leaders and Mao as placing the state and the private sector on an equal footing. This was at variance with the Party line that made the state-run economy the leading sector. Besides Bo, other major central leaders, including Zhou Enlai, Deng Xiaoping and Chen Yun, were severely criticized.<sup>65</sup> Mao adopted a zero-sum approach to the state-private relationship so that he thought anything conducive to the development of the private sector was at the expense of the growth of the socialist sector. The "mistake" of Mao's associates reflected that there appeared a gap in the understanding of the "transition to socialism." While Mao's ranking colleagues still held to a balance approach to the state and the private sector, Mao shifted leftward to stressing the growth of the socialist sector.

Even though Mao's leftward shift was the impetus to stepping up the transition to socialism, he still leaned towards a gradual approach to dealing with the private sector, as he was impressed with hindsight by the growth of state capitalism in the preceding years. However, the Party was uncertain what state capitalism implied to the prospects of private ownership. It was still supposed that nationalization could only be completed through the surrender of private firms by capitalists after a lengthy transition.<sup>66</sup>

In spring 1953, an investigation team headed by Li Wei-han was sent to several large cities, including Shanghai, Nanjing and Wuhan, to study the actual situation of the private economy. One of its aims was to look into the development of state capitalism. Concluding from the investigation, Li recommended using state capitalism as a transitional mode from the private sector to a socialist economy. The details of this investigation are not available, but one of the two investigation reports submitted to the Party centre and drafted in Li's name has been partly disclosed.<sup>67</sup> The disclosed report, dated 27 May 1953, graded the state-capitalist economies from elementary to advanced according to the degree of state participation. The elementary mode referred to the state purchasing the entire or part of the output of private factories, and private industry accepting the state's processing and purchasing orders.

65. See *Manuscripts of Mao Zedong*, Vol. 4 (Beijing: Zhongyuan wenxian chubanshe, 1990), p. 27. For the details of the tax reform see Teiwes, *Politics at Mao's Court*, pp. 62–71.

66. See a letter forwarded to Stalin in October 1952 by Liu Shaoqi on behalf of the CCP in which it mentioned such an idea of nationalization. See *Jianguo yilai zhongyao wenxian xuanbian (Selected Significant Documents since the Founding of the PRC)*, Vol. 3 (Beijing: Zhongyuan wenxian chubanshe, 1993), p. 368.

67. The two reports were respectively *Report Concerning Labour-capital Relationship and Labour Policy* and *Report Concerning the Issues of the Public-private Relationship in Capitalist Industry*. Only the latter was partly disclosed for the first time in a document collection on the united front work. See Li Wei-han, *Tongyizhanxian wenti yu minzu wenti (Problems of the United Front and Ethnicity)* (Beijing: Renmin chubanshe, 1982), pp. 46–63.

In the more elementary mode, the state trading agency irregularly intervened in the market by purchasing a large amount of the products that were significant to the people's livelihood from private factories. Under this condition, the free market and free trade kept on operating. For a more advanced mode, private factories were supplied with raw materials and paid a sum for processing the goods. Through this co-operative economy, the state could manipulate the raw materials supply to private contractors. It could create a more stable relationship between the state and capitalists.<sup>68</sup>

The most advanced mode of state capitalism referred to JPPEs. The report claimed that it was the best vehicle to transform private enterprises since the state could manipulate the management and workers could produce for the state rather than for capitalists. In addition, it was more convenient for the state to put JPPEs into the state plan control. In order to promote JPPEs, the report argued that after merging, private enterprises could increase output, improve quality and reduce costs. Those that had run at a loss before merging could run at a profit afterwards.<sup>69</sup>

The report further concluded that for private enterprises, even under the elementary mode of state capitalism, its "capitalist integument" had become a fetter upon the development of production forces, especially after the Five-anti Campaign. After that, workers were not subjected to management; the staff did not dare manage; capitalists were pessimistic. Costs constantly increased; wastage grew; it was difficult to give the potential of production full play. The report explained that the points noted above reflected the fact that the production relationship within them was incompatible with their production force. To solve their difficulties, it was appropriate gradually to transform them into JPPEs so as to alter their production relationship.<sup>70</sup> To complete the socialist transformation of private enterprises, the report suggested a step-by-step development from the elementary mode into the advanced mode, through which private industry became more akin to socialism.<sup>71</sup>

The report advanced two ideas regarding the management and profit distribution of the JPPE. It suggested that the state delegate in the JPPE should enjoy leadership status and should have the authority to make ultimate decisions after consulting the private-sector delegate. As for profit distribution, it suggested that a minimum profit should be guaranteed by paying a dividend and a maximum profit should be slightly more than the interest rate of a bank savings account, but all extra profits should be submitted to the state.<sup>72</sup> One thing should be noted: that the report only discussed industrial state capitalism. This reflected the fact that the Party kept to its original policy towards private commerce, namely "squeezing it out" rather than "transforming" it. Later on, state capitalism was re-considered to apply, too, to the socialist transformation of private commerce.

68. *Ibid.* pp. 51–52.

69. *Ibid.* pp. 47, 51.

70. *Ibid.* pp. 56–57.

71. *Ibid.* p. 54.

72. *Ibid.* p. 57.

The investigation report was first gone through by Liu Shaoqi, who suggested that it should be submitted to the Politburo for discussion.<sup>73</sup> Having gone over it, Mao Zedong agreed to submit it to the Politburo.<sup>74</sup> The report was discussed at two enlarged Politburo meetings with the attendance of the Party secretaries of ten cities, convened on 15 and 29 June 1953. Approving the report at the 15 June Politburo meeting, Mao for the first time advanced the idea of a new “general line.” He said at the meeting, “the general task and the general line of the Party during the transition period is to take ten to 15 years basically to complete industrialization, and the socialist transformation towards agriculture, handicraft and capitalist industry and commerce. This general line should be the beacon illuminating all our work. Don’t deviate from it; otherwise, [one] will make ‘left’ or right mistakes.”<sup>75</sup> At the 29 June Politburo meeting, the Party centre entrusted Li Weihuan, Hu Qiaomu, Li Lisan and Xu Dixin to revise the investigation report into a policy report for discussion at other conferences.<sup>76</sup> Originally, the report was entitled “The Report Concerning Use, Restriction, and *Reorganization* of Capitalist Industry and Commerce” (emphasis added). At Hu’s suggestion, the term “Reorganization” (*gaizu*) was replaced by “Transformation” (*gaizao*), which he thought to be more precise.<sup>77</sup> The Party also summed up the policy towards capitalism to be a slogan with three terms “Use, Restriction and Transformation” (*liyong, xianzhi, gaizao*) The terms “Use” and “Restriction” already appeared in the 1949 policy. “Transformation” was new.

It is interesting to note that the reason why Li advocated transforming the private industry into JPPEs was the tense labour–capital relationship after the Five-anti Campaign. Ever since the campaign, factory workers were not subject to capitalist management. Under this condition, private plants could not go on operating. Li’s rationale for transforming the private sector was the opposite to what Mao suggested straight after the Five-anti Campaign when he stressed that the national bourgeoisie was attacking the working class. According to one source, before the investigation Li still suggested a transformation of the capitalist sector after the accomplishment of industrialization. However, having carried out the investigation, he changed his mind because of the “deteriorating” conditions of private industry.<sup>78</sup>

With regard to the new general line, Mao as well as the Party did not regard the transformation programme as the abolition of capitalism. The “Use” aspect of the policy was rhetorically kept intact. Mao, at the

73. Xu Dixin, “Dang dui zibenzhuyi gongshangye shixing liyong xianzhi gaizao de weida chengjiu” (“The great accomplishment of implementing use, restriction and transformation towards capitalist industry and commerce”), *Dangshi yanjiu (Research on Party History)*, No. 4 (1980), p. 23.

74. Li Weihuan, *Reminiscences*, p. 742.

75. Bo Yibo, *Reflection*, pp. 230–31.

76. Xing Yongfu, “Dang zai guodushiqi zongluxian tichu de jingguo” (“The process of proposing the general line for the transition period”), *Dangshi yanjiu (Research on CCP History)*, No. 6 (28 December 1980), p. 43.

77. Xu Dixin, “My recollection,” p. 69.

78. Shui Shikai, “A historical Hobson’s Choice,” p. 100.

enlarged Politburo meeting on 29 July 1953, still emphasized that state capitalism was made use of to legitimize the “exploitation of surplus value” by capitalists who had suffered too much during the Five-anti Campaign. But the private sector was now under a more reasonable state regulation by state capitalism. The Party, in short, considered the socialist transformation as an extension to the “Restriction” policy. This was an appropriate pattern for “developing” capitalism under a socialist regime. For capitalists, however, the general line was a shock to them, as they thought it was a concept different from New Democracy. In fact, as Mao indicated at the meeting, the “three rights” of capitalists (right of ownership, right of hiring personnel and right of management) to a large extent had been attenuated under the new policy,<sup>79</sup> making these enterprises into “handicapped” private firms. Mao conservatively worked out that the transformation would need ten to 15 years to complete, but the nominal existence of private ownership became meaningless to the capitalists. Even though it was generally understood that the transformation was rapidly completed in 1956 because of Mao’s further “leftward” shift and the Party mobilization, it was also a rational choice for the capitalists to strip off their valueless capitalist integument as soon as possible.

### *Conclusion*

Historical process is always more complicated than poorly informed contemporary analysts suppose. Outside analysts always fail to align their analysis with the value judgement of local people. The origin of the Five-anti Campaign can exemplify this point. From an outside perspective, it should be attributed to state-spurred rent-seeking behaviour. However, the Chinese communists considered it an “evil” attack from capitalists. In light of the global experience of communist rule, we cannot deny the relevance of the “take-over” account on the abolition of private ownership in China, as it was a must when a communist party came to power. However, there were missing links when applied to China. These were related to the “subjective” perception of Party leaders that previous studies have missed.

The new material shows that there was no hidden Party agenda systematically to nationalize the private sector before 1953. The Party really wanted to make use of the private economy to help the modernization. However, while the communists appreciated the existence of capitalism for contributing towards economic construction, they did not comprehend the dynamics of capitalism. Besides private ownership, a market economy is an indispensable part of capitalism. The communists gathered that the development of capitalism only relied upon “exploitation of surplus of value” and did not realize the correlation between the market and the development of the private economy. The Party tried to make “use” of the private economy without the concomitant of the market. In this context, the pariah entrepreneurs did not look better

79. *Dang de wenxian (Documents of the Party)*, No. 6 (1998), p. 3.

able to propel industrialization than the Party cadres. The rapid wane of the private sector should be put down to this particular economic perception of the Chinese communists. However, the ambivalent attitude towards capitalism remained among Party leaders, including Deng Xiaoping. To a certain extent, the re-legitimization of the private economy in the 1980s was a response to the ambivalence, while the Party kept to the socialist line.

Some Chinese intellectuals judge that the Party should not have carried out the socialist transformation too early, and the New Democracy policy should have lasted longer. But they do not realize that even though Mao had not turned “left” and not announced the “general line,” the private sector had been declining under New Democracy, a fact ironically reflected by Li’s investigation report. The early abolition of the private economy is popularly attributed to Mao’s abandonment of New Democracy, but this article highlights that New Democracy itself was the root of the early abolition. Xiao Liang argues that the Party did not need to take the step of socialist transformation in the sense that the public sector at that time had already attained a dominant status.<sup>80</sup> But he disregarded the point that the market economy was on the way to collapse in the early 1950s.

80. Xiao Liang, “Theoretical bases.” p. 73.