

1953

Speeches/Documents

**Title:** ON STATE CAPITALISM

**Author:**

**Date:** July 9, 1953

**Source:** SWM volume 5 page 101

**Description:** Written comment on a document of the National Conference on Financial and Economic Work held in the summer of 1953

The present-day capitalist economy in China is a capitalist economy which for the most part is under the control of the People's Government and which is linked with the state-owned socialist economy in various forms and supervised by the workers. It is not an ordinary but a particular kind of capitalist economy, namely, a state-capitalist economy of a new type. It exists not chiefly to make profits for the capitalists but to meet the needs of the people and the state. True, a share of the profits produced by the workers goes to the capitalists, but that is only a small part, about one quarter, of the total. The remaining three quarters are produced for the workers (in the form of the welfare fund), for the state (in the form of income tax) and for expanding productive capacity (a small part of which produces profits for the capitalists). Therefore, this state-capitalist economy of a new type takes on a socialist character to a very great extent and benefits the workers and the state

This document and text Aug. 12, 1953, reveal Mao's understanding of the limited nature of the changes that had been brought about in China. They also illustrate his recognition of the importance of state capitalism in the transition from capitalism to Communism. However, as in the works of many other Communist leaders and Marxist theoreticians throughout the world, the exact role, nature, and duration of state capitalism remained rather ambiguous in Mao's work. <sup>1</sup>

"State capitalism" represents a method in the socialist transformation of previously privately owned and managed capitalist enterprises, and of their relationship to the working class represented through the state apparatus. It is, in Mao's view, a method and not a permanent and independent economic entity. The transformation of capitalist enterprises began with such measures as production and marketing contracts offered by the state and control of the profit margin and rate set by the state. (See text Nov. 1951-Mar. 1952, note 10.) For instance, the "Temporary Regulations Regarding Privately Run Enterprises" promulgated in Dec. 1950 stipulated that the highest annual profit for private capitalist enterprises should be 8 per cent. Further measures were later introduced, such as the quartering system of dividing up profits suggested in this document. However, the enterprises were still essentially privately owned and operated. By such drastic reduction of the possibilities for profits to accrue to the individual capitalist entrepreneur, however, the incentive for private capital was greatly curtailed. The next step was to set up, on a semivoluntary basis, joint state-private enterprises, with the state gradually taking up the lion's share of the funding responsibility for the

enterprises as well as for staffing and technical management. When this step was accomplished, whatever remained of the capitalist economy would on the whole be already absorbed into the state's economic planning. The next step would be the paying off of capitalist entrepreneurs through the so-called "redemption policy" and the paying of "fixed interests" for enterprises bought out by the state. All of these steps would occur later, and the detailed methodology was not worked out at this point. Nevertheless, the underlying principle of using "state capitalism" to transform the economy had already been suggested and was already in practice in some areas. The term, however, tends to be somewhat misleading, since it appears to imply that the state shall become the chief capitalist (a term that in socialist ideology innately connotes exploitation). It may perhaps be more accurately described as an integration of state interests and the existing capitalist element in the economy, with the state gradually taking over. In later years Mao made even more elaborate and reflective comments on this particular role of the state in the transformation of the economy. His final formulation, which came by way of comparing China's situation to that of the Soviet Union, is contained in his "Reading Notes on the Soviet Textbook of Political Economy" (see text 1960 Reading Notes, especially section 8 and note 42).

#### **Notes**

1 See, for example, text 1960 Reading Notes, section 8. The notion of state capitalism has been and continues to be a subject of considerable struggle within the international Communist movement. For an analysis of Lenin's treatment of the issue, see C. Bettelheim (1976), pp. 464-476.

2 Here Mao refers to the system of "dividing the spoils among the four horses" (si ma fen fei). A graphic description of this system is provided in text Sept. 7, 1953. The question of the nature and significance of interest accruing to capitalists, however, remained an issue of debate through the early 1960s. There was uncertainty as to whether or not such interest constituted surplus value, and the controversy was given much attention in Chinese economic and theoretical journals.