

On the Question of How China Should Gradually Transition from the Present to Socialism  
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At present, in terms of China's total industrial output value (excluding handicrafts), state-owned enterprises account for 67.3%, while private enterprises account for only 32.7%. In 1949, state-owned enterprises accounted for just 43.8%, and private enterprises 56.2%.

In the realm of commerce, regarding the national total value of goods traded, state-owned and cooperative enterprises now account for 62.9%, while private businesses account for only 37.1%. However, in retail trade, private businesses still account for 67%.

This is because several million people nationwide—including shop assistants, peddlers, and shopkeepers—depend on commercial activities for their livelihoods. If state-run and cooperative commerce were to expand too rapidly, it would lead to unemployment for these people. Therefore, we have deliberately controlled the pace of development for state and cooperative commerce, not allowing them to expand too quickly. However, if we decide to expand them, it would not be difficult to do so.

Within the private industrial and commercial sectors, those enterprises that are not aligned with the needs of the national economy and people's livelihood have already been largely eliminated. Most of the enterprises that remain are those that are beneficial to the national economy and people's livelihood.

In both industry and commerce, the proportion of state ownership already far exceeds that of private ownership. In addition, the railways are entirely state-owned, and banks are almost entirely state-owned. Private operators in import and export trade are extremely rare, and the state's control over essential goods has become dominant. State-owned enterprises now account for 80.8% of the means of production. This is the current situation.

We estimate that in five more years, after implementing our first Five-Year Economic Plan, the proportion of state-owned enterprises in industry will increase even further, while the proportion of private capitalist enterprises will shrink to around 20%.

In ten more years, private industry will decline to below 10%. Although the proportion of private industry will shrink, its absolute output may still see some growth, so most capitalists will likely remain satisfied and continue to cooperate with the government.

After ten years, over 90% of China's industry will be state-owned, while private industry will account for less than 10%. Moreover, these remaining private enterprises will generally rely on the state for raw materials, sales, and bank loans, and will be incorporated into the national plan, unable to operate independently. At that point, we will be able to take over this small portion of private industry without difficulty, bringing it under state ownership.

When it comes time to transfer private factories to state ownership, we envision that in most cases, the following method could be used:

- Persuade the capitalists to donate their factories to the state;
- The state will allow them to retain personal property for consumption;
- Capitalists who can work will be assigned jobs and have their livelihoods guaranteed;
- In special cases, the state may even pay the capitalists a portion of compensation.

We estimate that by then, most Chinese capitalists will likely agree to hand over their factories under such conditions.

Why is this possible?

Because:

First, China is still fundamentally a country where capitalism has not fully developed. The Chinese bourgeoisie is economically and politically very weak, and prone to compromise.

Second, starting now, on the one hand, we ensure that capitalists receive a fair amount of profit; on the other hand, we mobilize the people to oppose capitalist violations of national and popular interests. Earlier this spring, the Five-Anti Campaign targeted capitalists' bribery, tax evasion, cheating on materials and workmanship, embezzlement of state property, and theft of state economic intelligence. This campaign mobilized broad masses from government organs, workers, the general public, and even within the capitalist class itself to expose large-scale illegal activities by capitalists, fully revealing their corrupt behavior.

However, in handling these cases, we adopted a lenient policy: most were only required to return illicit gains and pay back taxes, and were not penalized. Only a small number of capitalists whose violations were particularly serious and egregious were punished or sentenced. As a result, the majority of capitalists did not sever ties with the government, but they became politically isolated and their social prestige dropped sharply. Without doubt, in the future, capitalists who seriously violate the law will continue to be dealt with, while those who are law-abiding or relatively law-abiding will be allowed to remain.

Third, today nearly all of the larger private factories in China are processing orders for the state. They rely on the state for raw materials, purchasing and marketing of finished goods, and bank loans. In addition, worker supervision is already in place. Without doubt, in the future, capitalists will become even more dependent on the state, and worker supervision will become more systematic and organized.

Fourth, a small number of more farsighted capitalists have already recognized the superiority of socialist enterprises and their higher labor productivity, and believe that socialism is inevitable. These individuals are now actively requesting to transform their enterprises into public-private joint ventures. Furthermore, many children of capitalists are studying in universities and technical schools, and the state supports their living expenses. Some of these young people have even declared that they do not want to inherit their capitalist parents' wealth.

These kinds of internal changes within the Chinese bourgeoisie have already begun to occur, and they will continue to develop in the future.

Fifth, with the growth of socialist elements in China, by that time, a small number of capitalists may find themselves entirely surrounded by socialism, and the complete nationalization of industry (excluding handicrafts) may become inevitable and impossible to resist.

Given the overall direction of these developments, while we cannot disregard the possibility of capitalist resistance to industrial nationalization, we estimate that at that time, most capitalists will likely agree to nationalization under the aforementioned conditions, and not engage in fierce resistance. As for a minority who might resist, or engage in passive resistance or sabotage, that will be unavoidable.

This is the possible method of industrial nationalization we envision for the future. As for the specific methods to be adopted and the timing of nationalization, these will, of course, have to be determined according to future circumstances.

In the agricultural sector, after land reform, we have already been promoting the mutual aid and cooperative movement among peasants. Currently, 40% of the peasantry nationwide is participating in this movement; in the old liberated areas, participation has reached 70–80%, and several thousand well-organized agricultural production cooperatives based on land pooled as shares, as well as several collective farms, have already been established.

We are preparing to vigorously and steadily develop this movement, with the goal of organizing the majority of Chinese peasants into agricultural production cooperatives and collective farms over the next 10 to 15 years, thereby basically realizing the collectivization of Chinese agriculture.

China's rich peasants (kulaks) have never played a major role in the rural economy. In the old liberated areas, they were already eliminated during the land reform, although in recent years new rich peasants have begun to emerge. Recently, we have prohibited Party members from engaging in exploitative activities such as hiring laborers or lending money, which are characteristic of rich peasant practices. In the future, we will adopt further measures to restrict the development of rich peasants, and we estimate that their growth will remain limited.

In the newly liberated areas, during the land reform, although we stated in both public messaging and legal provisions that the rich peasant economy should be preserved, in practice, the rich peasant economy was significantly weakened in the course of peasant struggles. It is estimated that it will not undergo major development in the future. Therefore, the mutual aid and cooperative movement is the main path for the future development of China's rural economy. In the final stage of collectivizing the rural economy, the specific method to be used in eliminating the remaining, though not numerous, rich peasants will have to be determined based on the situation at that time.

In China, in addition to modern industry and agriculture, there is also a large sector of handicrafts. At present, the output of handicrafts exceeds that of machine industry, and the majority of essential consumer goods for the people are still provided by handicraft production. As for this handicraft sector, we plan to actively assist small handicraft producers in forming production cooperatives, and encourage workshop owners to unite and adopt mechanized production. A portion of handicrafts will inevitably be displaced by machine industry.

However, the situation among small handicraft producers is different from that of the peasants. In the peasants' struggle against landlords, we were able to establish or are in the process of establishing Party organizations, but among handicraft producers, Party organizations are generally absent. Therefore, we anticipate greater difficulties in transforming handicrafts and organizing production cooperatives in that sector, and the process may require more time.

This outlines our general approach for transitioning to socialism.

*Based on Liu Shaoqi's manuscript.*

Note:

This is the first part of a letter Liu Shaoqi wrote on behalf of Mao Zedong to Stalin, while leading the Chinese Communist Party delegation to attend the 19th Congress of the Communist Party of the Soviet Union. In the letter, Liu also noted that these issues had not yet been discussed at a CCP Central Committee meeting, and were still proposals shared informally among a number of comrades.