

# THE GENERAL LINE FOR THE TRANSITION PERIOD

*September 8, 1953*

Today I shall take up the question of the transition from New Democracy to socialism under the heading of the general line for the transition period.

## I

This question is not new. Already at the time of the founding of the People's Republic of China we made it clear that there would be a transition from New Democracy to socialism. The Common Programme<sup>1</sup> did not include a description of the socialist future because it would have been premature to do so then. By premature I don't mean that the leaders lacked a proper understanding of that future but that it had not yet been explained to the people. Now I want to take up this question of the transition and try to clarify it.

Recently, at the Central Committee meeting and at the National Conference on Financial and Economic Work, Chairman Mao talked about the general line for the transition period. He said:

The time between the founding of the People's Republic of China and the basic completion of socialist transformation is a period of transition. The Party's general line, or general task, for the transition period is basically to accomplish the country's industrialization and the socialist transformation of agriculture, handicrafts and capitalist industry and commerce over a fairly

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<sup>1</sup>Speech delivered at the 49th meeting (enlarged) of the Standing Committee of the First National Committee of the Chinese People's Political Consultative Conference.

long period of time. This general line should be the beacon illuminating all our work, and whenever we deviate from the line, we shall make Right or "Left" mistakes.<sup>73</sup>

In the transition period the country's industrialization and the socialist transformation of agriculture, handicrafts and capitalist industry and commerce will be accomplished only basically, not completely. When they are basically accomplished, we may consider that the transition period is over.

As for "a fairly long period of time", it is impossible to say exactly how many years this will cover. Chairman Mao has said that several five-year plans would be required. The length of the transition period will depend on how rapidly the country's industrialization and the socialist transformation of agriculture, handicrafts and capitalist industry and commerce can be basically accomplished. That in turn will be determined by our own efforts.

If we deviate from the general line, we are bound to make major mistakes. Minor errors or defects in our work are unavoidable. However, if major mistakes are made because of a deviation from the general line, great danger lies ahead: the danger that we may strike out on a different road, the capitalist road. Such mistakes should not be made and they will not be tolerated.

Now I should like to take up two questions.

First, what is socialism? The quintessence of socialism is the completion of the socialist transformation. In other words, the ownership of the means of production by private capital has been abolished in favour of state ownership and agriculture and handicrafts have been collectivized. The accomplishment of this task calls for a fairly long period of transition.

In a people's democracy like ours and under our social system, it is impossible that there will come a day when the state declares that all the means of production now belong to the state, and that until that day arrives, everything will stay as it is without change. After the October Revolution the Soviet Union declared that the state would take over all enterprises employing more than a certain number of workers, and a few years after the end of World War II the people's democracies in Eastern Europe also declared that factories with more than a few dozen workers were to be nationalized. In view of present international conditions, and particularly in view of domestic conditions — the alliance of the different classes and the level of economic development — we are not taking that drastic ap-

proach. Instead of abrupt change, we envisage gradual transition. Although the changeover from New Democracy to socialism is in itself a revolution, we can accomplish it by gradual and peaceful transition, instead of announcing all of a sudden one morning that socialism is to be established. In the transition period efforts should be made to increase the weight of the socialist sector from day to day. I once told Mr. Sheng Peihua<sup>74</sup> that in future, classes would be eliminated and individuals would be happy. This means gradual transition, so that when conditions are ripe, the change will come about naturally.

Of course the transition will not be easy, but we should take into account the favourable conditions. We affirm first of all that the state sector of the economy, which is socialist in nature, is the leading sector and that all other sectors are subject to its leadership. This is stipulated in the Common Programme. The state-capitalist sector is one in which the state and private capital co-operate, with the former occupying the leading position.

In the transition period all sectors of the economy should be brought into line with the overall state plan. This is also stipulated in the Common Programme, in Article 33. Of course that's not easy to do. For instance, it is a difficult task just to bring the state sector of the economy into line with the plan. Our First Five-Year Plan has not been finalized yet. All we can do is to make plans and try to carry them out, revising them as we go along. It is even harder to bring the private capitalist sector and the individual economy into line with the plan. Bringing the various sectors of the economy gradually into line with the state plan under the leadership of the state sector will therefore be quite a long process.

Second, why is the question of the transition period being raised now? Some people say it is because of the armistice in Korea.<sup>26</sup> There is a grain of truth in that. If the Korean war were still raging, we could not be certain there would be no increase in military spending. Although the Korean issue has not yet been completely resolved, the fighting has ceased. In guiding our work, Chairman Mao follows this principle: As soon as one task is accomplished, another should be put forward to prevent slackening of effort. Now is the time for us to put forward our new task. From this point of view, citing the factor of the Korean armistice is partially justified, but it does not give the complete picture. This question is being raised also because of the current situation at home and abroad.

Internationally, in the 36 years since the birth of the new world following the October Revolution, the camp of peace and democracy has been consolidated and expanded, and the old world, despite all its clamouring for more armaments and war preparations, has been beset with difficulties. In appearance, the chief contradictions are between the two camps, but in fact they are within the old world itself. These include the contradictions between peace and war and between democracy and anti-democracy.

The contradictions of the old world, whether in the East or West, are increasing day by day. By their victory in the Korean war, the Chinese and Korean peoples succeeded in postponing a world war that the United States attempted to unleash. This has helped to aggravate the internal contradictions of the capitalist camp, to consolidate and expand the camp of peace and democracy, and to strengthen the national and democratic movements in the capitalist world and the peace and democratic movements of people everywhere. It has also provided more favourable conditions for the building of our own country.

Domestically, in the space of four years since the founding of the People's Republic, the people's democratic dictatorship has been increasingly consolidated, our national defence has become stronger and social reforms of many kinds have been basically completed. In particular, in these four years a basic turn for the better has been achieved in the financial and economic situation, the proportion of the socialist sector has increased from day to day, the leading position of the state sector in the economy has steadily grown stronger and the initiative of the people has been brought into fuller play.

As for industrial production, if we let total output value in 1949 equal 100, output in 1952 increased to 245. It will be 304 or more this year, if our plan can be fulfilled or overfulfilled. As for agricultural production, again letting total output value in 1949 equal 100, output in 1952 increased to 148. It is now clear that in view of the severe cold last winter and the frost and pests this year, together with droughts in the south and floods in the north, the increase of 6 per cent planned for this year cannot possibly be achieved. It is estimated that agricultural production will stay at the same level as last year or be slightly lower, although it may turn out to be slightly higher.

Now I'd like to talk about the proportion of industry and agricul-

ture in the national economy. The breakdown for 1949 and 1952 was as follows (figures for 1952 are approximate):

	1949	1952
Machine-building industry	17.4%	27.8%
Workshop handicraft industry	7.0%	6.0%
Individual handicrafts	6.8%	6.0%
Agriculture and sideline production	68.8%	60.0%

These figures show that the proportion of industry in the economy has considerably increased, and it will continue to grow this year.

Now for the ratio of the public sector to the private sector in industry and commerce. In industry, including both modern industry and workshop handicraft industry but excluding individual handicrafts, the breakdown of the various sectors was as follows (figures for 1952 are again approximate):

	1949	1952
State	33.9%	50%
Private	62.7%	42%
Joint state-private	2.4%	5.0%
Co-operative	1.0%	2.6%

In relative terms these figures show a rise in the proportion of the state sector and a fall in the proportion of the private sector, but in absolute terms both sectors registered growth. In commerce, in terms of total volume of commodity flow, the state sector already accounted for 50 per cent in 1952 and the percentage will continue to grow this year. In terms of retail volume, the state sector and the co-operative sector together accounted for 32 per cent.

In short, both the international situation and the domestic situation are favourable for the launching of a five-year plan for economic development now. It is also appropriate that the question of the transition period is being raised.

However, it must be admitted that there are still difficulties. China is still an agricultural country with a poor economic legacy and uneven development, and what industry we have is mostly concentrated in the coastal areas. Our educational sector is underdeveloped and our science and technology remain at a very low level. For example, we have few geologists we cannot design large factories by ourselves and the illiteracy rate is quite high. This backwardness may pose difficulties for economic development. As we still have

five different types of economy existing side by side,<sup>61</sup> it is an extremely complex job to ensure their proportionate development and to bring about their socialist transformation under the present circumstances. If we do not take those difficulties into account, we may try to plunge ahead too fast; on the other hand, if we do not take the favourable conditions into account, we may be too conservative.

The co-operative transformation of agriculture and handicrafts and the transformation of private industry and commerce are a big job. Chairman Mao has said that the transformation of private industry and commerce is relatively easy, so long as the issues involved are properly handled, but that agriculture and handicrafts present greater problems. These sectors of the economy will have to take different forms and be transformed at different speeds. Agriculture and handicrafts will become co-operative, and private industry and commerce will take the form of state capitalism. Now that we have charted the socialist road for China, we should feel confident we can accomplish this important task of transformation by our own strength.

## II

Under the guidance of the general line, we should outline the basic tasks of the First Five-Year Plan for economic development.

The basic tasks of the First Five-Year Plan are the following: first of all, to concentrate on developing heavy industry, so as to lay the foundation for the industrialization of our country and the modernization of our national defence; to train technical personnel, develop transportation, light industry and agriculture and expand commerce; to promote the co-operative transformation of agriculture and handicrafts and the socialist transformation of private industry and commerce; and to enable individual farming, handicrafts and private industry and commerce to play their part in the economy. We must do all these things if we are to ensure a steady increase in the proportion of the socialist sector of the national economy and a gradual improvement in the material and cultural lives of the people on the basis of increased production.

Heavy industry is the basis for the industrialization of a country. Although we have some heavy industry, it is far from adequate as the basis for industrialization. We therefore have no choice but to con-

concentrate on developing it. When the Soviets embarked on their First Five-Year Plan for construction, their heavy industry provided a stronger foundation than ours, yet they still concentrated on developing it. There is all the more reason for us to do so. The development of the defence industry is predicated on heavy industry. We cannot yet manufacture tanks, aircraft, trucks, tractors or advanced guns. When the Soviets started their planned construction in 1928, many capitalist countries sold them machinery, and the international situation was not so tense as it became some years later when Hitler had come to power. They could therefore go about construction in a normal way. But we are in a different situation now, and it is all the more necessary for us to speed up the development of heavy industry so as to strengthen national defence. When we say we shall concentrate on this task, of course we don't mean that we are going to rush things through.

The training of technical personnel is the key to building our country. We don't have nearly enough technicians, and it is therefore very important to train more of them. We should use various means to do this. In addition to vocational schools, factories should undertake the training of technical workers, and cadres should be encouraged to acquire professional knowledge and skills.

Transportation is the precondition for economic development. Unless the transport sector is developed, it will be impossible to make big strides in industrial expansion. The most urgent thing right now is to have the southwest, the northwest and north China connected by rail.

Light industry should be developed to meet the needs of the people. The purchasing power of the people is now rising, and the population is growing very fast — by 10 million every year. We should try to gradually satisfy their needs. The development of light industry also helps the state to accumulate funds. Naturally, it has to be carried out step by step and according to a plan that sets well-defined priorities and focuses on much-needed products such as cotton yarn and cloth. If we pay attention only to heavy industry to the neglect of light industry, we are bound to make mistakes.

Agriculture must be developed, or there will be no increase in grain production. For a fairly long time to come we shall feel the pinch of a grain shortage. Not the same kind of shortage known in the past, but a shortage arising from the steady improvement of the living standards of the people. Agriculture has long since reached the

pre-war peak level, but if we want the standard of living to continue rising, we must pay constant attention to the grain supply and not tolerate any neglect of it. The state must continue to tighten its control over grain. In developing agriculture we should seek to advance not too rapidly but steadily, because arable land is limited and reclamation takes quite some time. Agricultural development has to keep up with industrial development, and first of all per-unit yield must be raised on the basis of what has already been achieved. Our peasants are highly skilled at hand labour, and this is an asset. In the period of the First Five-Year Plan we cannot yet make tractors by ourselves. When the time comes for us to use them we shall have to take into account the conditions of the different regions. For instance, tractors may not be good for hilly land. Right now we don't have to worry about the problem of surplus labour after the introduction of tractors. Grain is needed by various sectors. The agricultural population needs grain, and as more and more industrial and mining areas and cash-crop regions emerge, the need will increase. Besides, we must provide for natural disasters and must export a certain amount of grain in order to balance foreign trade.

Commerce must be expanded, or else again mistakes will be made.

The co-operative transformation of agriculture and handicrafts and the socialist transformation of private industry and commerce must be carried out step by step.

In short, to ensure victory in our planned development, we must promote advances in all fields of endeavour in a well-coordinated way.

### III

About socialist transformation and state capitalism. In the transition period socialist transformation must be carried out in agriculture, handicrafts and capitalist industry and commerce. During this period there will not be a complete transformation but rather a gradual transition. Complete transformation means that private ownership of the means of production has been abolished and replaced by state ownership or collective ownership. In the transition period, however, limitations are merely imposed on private ownership of the means of production, so that the system becomes one of modified private

ownership. Such limitations are prescribed in the Common Programme. Dr. Sun Yat-sen advocated the regulation of capital, which means regulating private capitalism so that it cannot grow unchecked. The capitalist economy places profit-making above everything else. In China, there is also a dark side to private capitalism — the “five evils”<sup>67</sup> for example. We must combat its dark side. Private capitalist ownership of the means of production must be restricted, but this does not mean that it is abolished or that profits are eliminated. As far as income distribution is concerned, it is a case of “giving each of the four horses a share of the fodder”,<sup>75</sup> with the capitalists entitled to their portion of the profit. The situation is quite similar in agriculture. In agricultural producers’ co-operatives,<sup>76</sup> land is pooled and each owner has a share and receives dividends. However, public reserve funds must be collected, so this too is a system of modified private ownership. The same can be said of handicraft co-operatives. In all these cases the transformation is not complete; the purpose is to gradually guide each sector onto the road of socialism under the general line. This gradual transformation must be well planned and properly led, so that when conditions are ripe success will be assured.

Chairman Mao says, “The transformation of capitalism into socialism is to be accomplished through state capitalism.”<sup>77</sup> State capitalism is dealt with in Article 31 of the Common Programme. In the past three years we have done some work in this connection but not enough, because we were occupied with the three great movements,<sup>78</sup> the movement against the “three evils”,<sup>69</sup> the movement against the “five evils”<sup>67</sup> and the movement for ideological remoulding.<sup>79</sup> It was essential for us to occupy ourselves with these other fields of work in order to lay the foundation for socialist transformation. Our past experience has already shown that it is a sound policy to use state capitalism as a means to accomplish the socialist transformation of private industry and commerce. Now that a period of planned development has begun, the policy must be clearly understood and concretely applied. In particular, people in positions of leadership in the central and local government and in the various parties and people’s organizations should have a clear understanding of the policy, recognizing that state capitalism is the only road for the transformation of capitalist industry and commerce and for the gradual transition to socialism. So far, this has not been the case either for members of the Communist Party or for eminent democratic figures. At the recent conference on financial and economic work this

question was dealt with at some length, and it will now be discussed by the Chinese People's Political Consultative Conference and the Government Council. It must be made clear first of all to leading public figures and, within the Party, to leading organizations at all levels. There's no hurry about conducting extensive propaganda in society at large, because phrases like "socialist transformation" and "gradual transition to socialism", if not properly explained, may easily be misinterpreted to mean instant implementation of socialism. We should make steady progress in our work and try not to be too hasty. Chairman Mao says that while we must not simply stand still and leave the socialist transformation to the indefinite future, we must not rush things through either.

Now about forms of state capitalism. In industry the advanced form is joint state-private ownership. That is to say, the state holds shares in enterprises, which are jointly managed by the state and by private capital. State ownership occupies the leading position, while private ownership is acknowledged but already restricted. The intermediate form of state capitalism is one in which the state places orders with private enterprises to process materials or manufacture goods. In other words, the state supplies the raw materials and purchases the products, while private enterprises undertake the production. Private ownership is also restricted here, because private enterprises cannot purchase raw materials or sell their products in the free market. In the elementary form, private enterprises generally buy the raw materials and undertake production, while the state purchases the greater part of their products, leaving a small portion for them to sell. Right now there are these three forms of state capitalism, and there may be others in future.

Is there state capitalism in commerce? Chairman Mao says that private commerce cannot simply be dismissed by replacing it or excluding it. That part of private commerce which involves speculation and profiteering and is detrimental to the national economy and the people's standard of living should of course be excluded. But we still maintain that state capitalism can also be applied to commerce. Privately owned business firms that are truly of vital importance to the national economy and the people's standard of living can be turned into firms under joint state-private ownership. The rational elements in their operation and management can be turned to good account and the irrational ones restructured so that the firms serve the interests of the state. Moreover, privately owned commercial un-

undertakings can do wholesale selling in place of the state, in accordance with state-fixed prices, or act as its purchasing and marketing agents. There are a vast number of privately owned commercial undertakings, several million of them, ranging from large corporations to street vendors, and we must lead them forward. As to the specific form of their transformation, here our experience is limited and further study is needed.

We shall try to bring the country's private industry and commerce onto the path of state capitalism. Chairman Mao says it will take at least three to five years to do that.<sup>77</sup> But this planned change is not yet the complete transformation. This gradual approach should cause no alarm or uneasiness among leading public figures.

Currently the proportion of private industry and commerce in the economy is quite large. In industry the private sector accounts for 42 per cent and in retail trade for 68 per cent. Workers and shop assistants employed in private industry and commerce (excluding handicrafts and family-run shops) total roughly 3.8 million as against the 4.2 million employed in state-owned factories and state commerce. The private industry and commerce are a great asset to the state and still play a large part in the national economy and help to raise the people's living standards. In Chairman Mao's words, "Not only do they provide the state with goods, but they can also accumulate capital and train cadres for the state."<sup>77</sup> We should therefore recognize their importance, give them leadership and take them into account as we proceed with construction.

There are two phenomena that deserve our attention. One is that some industrialists and businessmen still keep the state at arm's length and have not changed their profit-before-everything mentality. The new-democratic economy does not permit people to seek profit above all else, and that tendency must be restricted. The other is that some workers don't see this problem in the right perspective. They are advancing too fast and won't allow the capitalists to make any profit at all. That's not good. Chairman Mao has said, "We should try to educate these workers and capitalists and help them gradually (but the sooner the better) to adapt themselves to our state policy."<sup>77</sup> We should help them understand that if the capitalists act in accordance with state policy, private industry and commerce serve mainly to develop the economy and raise the people's standard of living — only partly to earn profits for the capitalists — and that they thus take the form of state capitalism. As for the distribution of profits, Chairman

Mao recently discussed the question with comrades doing trade union work and comrades working in major cities. A rational division of profits would be 34.5 per cent for the income tax, 15 per cent for the workers' welfare fund, 30 per cent for the accumulation fund and 20.5 per cent for the capitalists. Or the capitalists' share might be larger: 25 per cent, say, would be more appropriate. Although we talk about "giving each of the four horses a share of the fodder", there are actually only three horses, because the accumulation fund is used for the benefit of the state, the workers and the capitalists. Whether or not we have a system of state capitalism, this sort distribution means that private industry and commerce serve mainly to develop the economy and raise the standard of living and only partly to earn profits for the capitalists. Of course, if we adopt the form of state capitalism it will be possible to make this principle of distribution work even better. State capitalism, as we envisage it, is different both from private capitalism of the general type and from state capitalism in imperialist countries; it is state capitalism of the Chinese type.

Both workers and capitalists should be educated. At the Seventh National Congress of Trade Unions<sup>80</sup> held in May this year, Comrade Liu Shaoqi made a speech, and the questions of state capitalism and workers' jobs in capitalist industry and commerce were discussed. We have invited industrialists and businessmen from various places to the present meeting in order to enable them to understand these questions. We should cultivate key persons in the democratic classes, the democratic parties and people's organizations, so that they will unite with others in the struggle for socialist transformation through state capitalism. Chairman Mao has said, "It is necessary to go on educating the capitalists in patriotism, and to this end we should systematically cultivate a number of them who have a broader vision and are ready to lean towards the Communist Party and the People's Government, so that most of the other capitalists may be convinced through them."<sup>77</sup>

Most of the capitalists are receptive to socialist transformation, but some will resist it. This must be taken into account. As Chairman Mao says, "Not only must the implementation of state capitalism be based on what is necessary and feasible (see the Common Programme), but it must also be voluntary on the part of the capitalists."<sup>77</sup> A line must be drawn between coercion and voluntariness. With the reactionary classes we must use coercion, but within the democratic

classes, the principle of voluntariness must be observed, because with them the implementation of state capitalism is a co-operative undertaking and co-operation admits of no coercion. Of course, we should bring about a situation favourable to its implementation and make the best use of it. In terms of labour productivity, state-owned enterprises are now the best, enterprises under joint state-private ownership are second best and trailing behind them are private enterprises that take orders from the state to process materials and manufacture goods. This shows the superiority of state-owned industry. On the other hand, we should make it possible for private enterprises to make a profit and for the capitalists to use their earnings at their own discretion. In the words of Chairman Mao, "Considerable progress has been made in the last few years by the various nationalities, democratic classes, democratic parties and people's organizations, and still greater progress will, in my opinion, be made in the next three to five years. So it is possible basically to accomplish the task of leading private industry and commerce onto the path of state capitalism in three to five years."<sup>77</sup>

The Conference on Financial and Economic Work went on for two whole months. Some people are asking what it was all about. Will there be a lesser movement against the "five evils"? Chairman Mao has said that there will be no such movement. It is not necessary to launch one now. In Shanghai 160,000 cases of tax evasion have been uncovered, but most of them are medium or minor ones. These cases of tax evasion vary in seriousness, and there are also defects in our tax system. These things have to be addressed and rectified but there is no need for a lesser movement against the "five evils". We are now considering ways to deal with the problem. The government will do the job and you will provide the support. All this comes under the general line for the transition period.

To sum up, it will take at least three to five years for us to get basically started on the path of state capitalism. This does not mean that socialist transformation will be completed in that time — several five-year plans will be needed to accomplish that. The two things should not be confused. On the one hand, it would be wrong to stand still, thinking that socialist transformation is a matter for the indefinite future. Inaction now means suffering later; progress now means joy in future. On the other hand, it would also be wrong to rush things through, to try to reach the sky in a single bound.

It must be made clear that the state sector of the economy leads and the sector of private capitalism is led. The state sector seeks no private profit but only the public interest. The co-operative sector is semi-socialist in nature, and the sector of private capitalism still seeks a certain amount of private profit. Therefore, the problems of the different sectors cannot all be treated in the same way; different approaches are called for. However, as private industry and commerce benefit the economy and raise living standards, in this sense they are the same as the other two sectors and should be regarded as such. We should try to convince their workers that like their counterparts in state-owned enterprises, they should practise economy, increase production and launch an emulation drive to improve labour productivity, lower costs and raise the quantity and quality of products. If this is done, workers will feel that their work is honourable whether they are working in state-owned or privately owned enterprises. If the capitalists act in accordance with state policy, do not engage in speculation or profiteering and are not guilty of the "five evils", the work they do is also honourable. Under those conditions, workers and capitalists can work in collaboration. Then the idea of considering both the public and the private interest under the leadership of the state sector of the economy and of benefiting both labour and capital under the leadership of the working class will become a reality.

This approach is not understood by the majority of the people now, and we should work hard to educate the public, making the reasons for it clear to them. The Communist Party should of course be the first to take on this task, and trade unions, democratic parties, leading democratic figures and industrialists and businessmen should all be encouraged to join in. The government is preparing to establish a special agency to take charge of matters related to private industry and commerce so that work in these areas can proceed in a planned way and under proper leadership.