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# A Theory of Transitional Society

## Mao Zedong and the Shanghai School

by Peer Moller Christensen and Jorgen Delman

### Introduction

The coup d'état in China in October 1976 struck most of the Western world with astonishment. Within a couple of months political power relations in China seemed to be reversed, as was its most recent history. Taken aback by the Chinese explanations and disoriented by the suddenness and finality of events, public opinion in the West tended to accept the reasons for the coup d'état offered by the victorious conspirators.

It is, however, highly problematic to accept immediately new explanations—as well as old—just because they are offered by people in power. Beneath current accusations against Mao Zedong and the “Gang of Four” for “sabotaging,” “undermining,” etc. the socialist economy and the socialist system, one finds substantial evidence that doing away with the Cultural Revolution is not just a question of legal justice. Real political and theoretical contradictions between factions within the Chinese Communist Party (CCP) leadership certainly existed and formed the basis for recurrent power struggles. Therefore we still find it worthwhile to study the decade of the Cultural Revolution—not to “acquit” Mao Zedong or the “Gang of Four” of whatever mistakes or crimes they may have committed, but to gain a more sober and realistic understanding of that tumultuous decade.

In this respect it is necessary to consider the theory or theories lying behind the Cultural Revolution as a basis for analyzing actual policy-making. In this article we intend to present an outline of the theory of transitional society developed during the period 1949–1976 by the radical wing within the CCP, notably Mao Zedong and the Shanghai School, economists and politicians in Shanghai who cooperated with radical politicians within the CCP leadership (such as Zhang Chunqiao and Yao Wenxuan).

This theory was presented as a “political economy of socialism” based on, but critical of, Soviet Marxism. In its final version it came close to contemporary Marxist theory propagated by members of the New Left in Europe such as Charles Bettelheim and Rossana Rossanda. One of the interesting features of this Chinese theory was its ability to gradually free itself from Stalinist dogmatism and the straightjacket of Soviet Marxism and to reach new insights concerning the nature and structure of China as a socialist society.

Our article is divided into five parts: First, we present a theory we call the “system theory” which was developed under Stalin’s auspices in the Soviet Union in the forties and early fifties and later exported to China. Part two is a brief digression introducing the development of a theory of market-socialism in China in the late fifties and early sixties. Part three traces Mao Zedong’s development of a “generative class theory,” and in part four we analyze the theory of what we call the Shanghai School which was developed in the early and mid-seventies. It is presented here for the first time outside China. In our final remarks we shall offer some comments on the applicability of this theory as well as on its self-contradictions and obvious limitations.

### The “System Theory”

The political economy of socialism was not introduced in China on a wider scale until the early fifties, and then in the form of the Soviet “system theory”<sup>1</sup> which found its way to China as part of the superstructure of Soviet economic and political assistance after Liberation in 1949. The “system theory” was presented as *the* Marxist theory on the political economy of socialism and was expounded by Soviet manuals on political economy, primarily in *Political Economy; A Textbook* published in 1954.<sup>2</sup>

Before this book came to China, Chinese economists already had a notion of the nature and ideas of the “system theory” from Stalin’s small pamphlet: “Economic Problems of Socialism in the USSR” (1952), which was meant as a guideline for the authors of the “Textbook,” themselves distinguished Soviet economists.<sup>3</sup> Stalin’s participation in writing the “Textbook” and final approval of it made it the most authoritative work of the “system theory.” It later appeared in second and third editions, but the theoretical substance remained identical.

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1. This is our own designation for this specific theory. It is meant to describe a theory regarding socialism as a social system governed by a set of objective laws. The “system theory” is regarded as a scientific system in itself.

2. Danish ed., Copenhagen 1955.



## Notice

Here, in a two-part special, the Editors present essays that focus on China since the death of Mao Zedong. As with our continuing series of articles on Southeast Asia since 1975, the contributions here and in the accompanying issue (Vol. 13, No. 3) are not definitive or final. We invite other readers to join this dialogue by submitting essays or research reports (in triplicate, please) that will, both in a progressive and critical manner, further our understanding of contemporary China.

The Editors



Around the “fundamental law” there are a series of mutually interrelated *non-fundamental laws*.” They are all subordinated to the “fundamental law” and serve to fulfill its demands. The most important “non-fundamental laws” are: (1) The law of planned and proportionate development guaranteeing correct relations among the various sectors of the economy and of production; (2) the law determining that there will be a constant heightening of labor productivity guaranteeing a constant and swift development of material production; (3) the law of distribution according to work guaranteeing everybody who works an income in correspondence to his/her productive efforts; (4) the law of value (itself the “fundamental law of capitalism”) guaranteeing that products are exchanged at equal value.

These laws are defined as objective and incontestable. They are independent of man’s will. They gradually extend their sphere of influence after the establishment of socialist production relations, and at the same time they replace the specific laws of the previous mode of production.

The “Textbook” follows Stalin in asserting that the law of value still exerts its influence under socialism because commodity production and commodity circulation still exist. But it is emphatically stressed that it operates in a “purified form,” controlled by public ownership and socialist planning and consequently having only a regulatory function. Even though socialism is considered to be an independent social formation, there still exist categories such as money, commodities, value etc. known to be vital to capitalist economies. Theoretically they are identified as concrete expressions and manifestations of the objective laws governing socialist society, but it is asserted that they too exist in a “purified form,” *free of capitalist content*.

According to the “Textbook,” as long as these laws are understood and applied correctly, socialist production will be able to develop smoothly and at a rapid pace. Consequently, socialist society will experience a corresponding fulfillment of the ever-increasing material and cultural needs of the people. Political economists, therefore, have it as their task to identify and study the objective laws in order to provide a basis for rational economic policies.

We do not know to what extent the “Textbook” was used in China before 1959, when an official translation of the third edition appeared.<sup>4</sup> But we do know that Mao Zedong followed the translation of the third edition with intense interest and that he criticized it in his “Reading Notes”<sup>5</sup> immediately after its publication.

Most of the ideas and concepts of the “system theory” came from the classical writings of Marx, Engels and Lenin, from Stalin, and from various Soviet economists. They were well-known beforehand, but this was the first attempt to present socialist political economy as a coherent entity and a scientific system. The “Textbook” was divided into chapters covering all known modes of production from tribal communism to as-yet-unrealized communism. The aim was to elaborate on Stalin’s rather sketchy theses and concepts, to present a scientific understanding of the evolution of society, and to bring order to the chaos of history.

One basic concept in the “Textbook” is that social development is determined by two qualitatively different categories of objective laws. One category of laws consists of *general laws* operating through *all* known modes of production, as for example the law determining that production relations (which Stalin defined as comprising the ownership system, mutual relations within production and the distribution system) will invariably, and almost automatically adapt to new economic imperatives and will follow developments in social productive forces. The other category of laws are *specific* to one or some, but not all modes of production, as for example the law of value, which is the basic law of commodity production, as in capitalism.

The “Textbook” defines *socialism* as an independent and relatively stable social formation with its own set of objective laws. At the core is a “*fundamental law of socialism*” determining that socialist production produces not for profit, as in capitalist production, but to satisfy the ever-increasing material and cultural needs of the working people in the process of building socialism.

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3. Another source has been: Mi Fei Sibilidunnuofu (M.F. Spiridonov), *Zhengzhi jingjixue jiangyi, I-II* (Lectures on Political Economy), Beijing: Gao-deng Jiaoyu Chubanshe, 1954. We found this manual in a second-hand bookstore in Shanghai in 1979. As it was published *neibu* (internally) in a limited number of copies it has—to our knowledge—never been listed in an official bibliography. Consequently, we did not know of its existence until accidentally buying it. Basically, its theoretical substance corresponds to that of the “Textbook,” and we shall still consider this the most authoritative and influential work in the Chinese context as it was written under Stalin’s auspices and later criticized by Mao personally.

4. *Zhengzhi jingjixue. Jiaokeshu (disan zengding ben) I-II* (Political Economy: Textbook [Third Enlarged and Revised Ed.]), Beijing: Renmin Chubanshe, 1960. This is yet a revised edition of the third revised edition published in January 1959 (Reviewed by Li Yun in *Hongqi* (Red Flag) no. 15, 1959). An East German edition of the “Textbook” is available: *Politische Ökonomie in der USSR*, in Martin (see note 5), pp. 124-129.

5. The *Reading Notes on the Soviet Text ‘Political Economy’* is available in Mao Tsetung, *A Critique of Soviet Economics*, annotated by Richard Levy and with an introduction by James Peck (N.Y.: Monthly Review Press, 1977). German ed.: Helmut Martin (ed.), Mao Tse-tung, *Das Machen wir anders als Moskau*, (Hamburg: Rowohlt, 1975). The Chinese original is available in two slightly different versions (both published in Taiwan): *Mao Zedong sixiang wansui* (Long Live Mao Zedong Thought), 1967, pp. 167-247, and *Mao Zedong sixiang wansui*, 1969, pp. 319-99. Hereafter: *Wansui-67* and *Wansui-69* respectively.

Even though the “system theory” presents itself as a logically coherent and scientific theory of socialism, it contains a series of more or less obvious self-contradictions and unsolved theoretical problems which tend to neutralize its analytical potential altogether. To mention but a few:

- The “system theory” defines objective laws as part of the *object* of political economy. However, when reading the “Textbook” it becomes apparent that these laws have all been defined *beforehand*, not detected by analyzing real social problems, relations and contradictions in the USSR. Thus the method tends to become tautological, and the conception of socialism mechanistic.

- Secondly, the entire theoretical complex has been put together from bits and pieces taken from the writings of Marx, Engels, Lenin, Stalin, and various Russian economists without taking into consideration the original textual and historical context. The intention of Stalin and the authors obviously was to substantiate a preconceived theory of socialism and to construe a system of thought, a “genuine” and “scientific” Marxist theory, only in order to explain economic policies and beautify harsh social realities.

- Thirdly, the “system theory” is a closed system of thought which precludes the possibility of identifying new laws. This tends to neglect the allegedly dialectical method of analysis of the “Textbook.”

**From 1970 to 1976—especially after the fall of Lin Biao in 1971—an intense effort was made to develop a comprehensive, independent Chinese theory on socialism. The result was the manual “Political Economy of Socialism” (PES), which was based on the cultural revolutionary experiences and Mao’s interpretation of the nature and structure of Chinese society.**

- Fourthly, the *critical* dimension so prevalent in Marx’s criticism of bourgeois political economy entirely disappeared in the “system theory.” The “Textbook” reduced political economy to a science of legitimization more geared to the needs of economic policy-making than to the needs of obtaining knowledge about the nature and structure of socialist society.

- Finally, the “system theory” purported to be a science for and of the working people. It maintained that anything done by the leaders and the Communist Party was done “in the interests of the working people.” This idea based itself on the assumption that, due to the nationalization of the means of production, the working class had become masters in socialist society. Furthermore, class-struggle would die out because there was no more private ownership to form a basis for continued exploitation of the working people. The obvious intention was to ideologize a non-existent social harmony within production relations. It is a well-known fact that production relations in the USSR were imbued with contradictions. The violent suppression of opposition under Stalin bears testimony to this. By ideologizing production relations, the “system theory” precluded itself from becoming the critical theory and instrument of class-struggle which Marx’s original theory had been.

The political economy of the “system theory” was the subject of several articles in the Chinese economic magazine *Jingji Yanjiu* (Economic Studies) from its inception in 1955.<sup>6</sup> But most articles concentrated on specific topics, primarily the question of objective laws under socialism. The “system theory” was not presented officially in its entirety until the appearance in 1959 of the translation of the third edition of the “Textbook.” The Chinese version of the “system theory” was basically identical to the Soviet original,<sup>7</sup> but it had to be applied in an entirely different social and historical context. Therefore, it quickly met with opposition, notably from market socialists like Chen Yun and Xue Muqiao, and from Mao Zedong, who was at that time starting to develop a theoretical platform of his own.

## The Theory of Market Socialism

We shall not dwell long on the topic of market socialism here,<sup>8</sup> but only briefly give an introduction to the theoretical platform of its foremost protagonists, Chen Yun and Xue Muqiao. For them the key problem left unsolved by the “system theory” was the question of how to interpret the function of the law of value\* under socialism. They claimed that the law of value should be allowed to play an independent and active role in developing and controlling the market in a socialist economy, thus contending the idea of the “system theory” that the law of value only had a regulatory function and was controlled by economic planning.

Chen and Xue maintained that large sectors of a planned economy could be substituted by a market economy controlled by the law of value, i.e. primarily the supply-demand mechanism. They acknowledged the qualitative difference between the laws governing a planned economy and market economy, and consequently the contradiction between the two. But, nonetheless, they believed that a market economy could still cure some of the maladies of a planned economy, such as over-centralization of economic decision-making, bureaucratization

6. For the indices and subjects of *Jingji Yanjiu* see: James Nickum, *A Research Guide to Jingji Yanjiu (Economic Studies)* (Berkeley: University of California, Center for Chinese Studies, 1972).

7. A good introduction is given in an article by Yu Ding: *Xuexi zheng-zhi jingjixue xuyao zhuyi de jige wenti* (Some Problems to Pay Attention to When Studying Political Economy), *Renmin Ribao* (People’s Daily), July 27, 1959.

8. The issue of market socialism in China is still virgin soil. Here we can only give a few tentative references: G.W. Lee, *Current Debates on Profits and Value in Mainland China*, Australian Economic Papers, June-Dec., 1965, pp. 72-78; Charles Bettelheim, *Die Preispolitik und die Rolle des Profits*, in Bettelheim et al., *Der Aufbau der Sozialismus in China*, München, 1972, pp. 103-74; *Jianguo vilai shehuizhuyi shangpin shengchan he jiachi guilü lun wenxuan, I-II* (Selected essays on the theory of socialist commodity production and the law of value since the founding of the PRC), Shanghai: Renmin Chubanshe, 1979. Unfortunately, this collection of essays excludes material from the Cultural Revolution including that of the Shanghai School.

\*The law of value was identified by Karl Marx as the law governing commodity production. Roughly speaking, the law of value determines that all exchange in a commodity economy is carried out at equal values, measured in terms of socially necessary labor spent in producing a specific economy. In capitalist society the law of value has a wide range of economic, social and political implications and consequences manifesting themselves in a very competitive and anarchic production leading to waste of raw materials and labor force.

of the planning apparatus, ineffectiveness in creating overall balance, and extensive waste of raw materials and labor. These were all problems which had arisen in the course of the first five-year plan based on Soviet planning principles and the ideas of the “system theory.”

The inspiration for working out a Chinese theory of market socialism came from various sources, primarily the Yugoslav experiment, but also from debates on economic reforms then current in East European countries.

### Mao Zedong’s “Generative Class Theory”

Mao Zedong was a most radical critic of the “system theory.” During the fifties and early and mid-sixties he developed a stand of his own on several aspects of political economy, in opposition both to the “system theory” and to the theory of market socialism. Mao’s formulation of a “generative class theory”<sup>9</sup> (a theory on the growth of new classes within socialist society with a socialist economy as the material foundation) was undoubtedly his most significant contribution to socialist theory.<sup>10</sup>

The “generative class theory” saw the light of day in the mid-sixties as the result of a long and rather complex development running through at least three phases: (a) before 1958; (b) 1958–61; (c) after 1961. Here we shall briefly summarize the main points in this development, in order to provide the Chinese theoretical and conceptual background to the theory of the Shanghai School.

Before 1958 Mao’s most important theoretical contributions were his assertions that class struggle continues in socialist society even after the transformation of the ownership system,<sup>11</sup> and that revolutionizing production relations is a necessary precondition to promoting an extensive development of social productive forces,<sup>12</sup> i.e., economic growth. Furthermore, Mao revived the concept of revisionism which was excluded from the “system theory,” identifying revisionism as a bourgeois tendency within the communist party having its roots in socialist society itself. The protagonists of revisionism “dream of a restoration of the capitalist system,” stated Mao.<sup>13</sup>

In the second phase Mao criticized Soviet theory directly. In two criticisms (1958 and 1959)<sup>14</sup> of the above-mentioned pamphlet by Stalin and in his “Reading Notes” of 1960, Mao presented a series of new ideas. All three articles were criticisms of Soviet texts, and therefore do not present themselves as consistent theoretical works. They were sketchy commentaries and critical notes by means of which Mao reached new insights concerning the nature of socialist society.

In these works Mao broke away from the idea that socialism was an independent mode of production. He found socialism to be a transitional social form, a society on its way between capitalism and communism. It is not—as claimed by the “system theory”—characterized by harmonious and peaceful development (provided objective laws are correctly interpreted and applied). On the contrary, Mao found that socialism is dominated by contradictions between economic base and superstructure, between productive forces and production relations, and—most importantly—within production relations themselves. Thus he still considered social contradictions and class contradictions to be the motivating force in social and economic development.

Mao acknowledged the existence of objective laws, but stressed that they are, after all, only man-made and that one

cannot allow oneself to become a slave of them as did the protagonists of the “system theory.” Mao favored a much more voluntarist approach in his recurrent stress on the primacy of production relations over productive forces. It was stated several times by Mao that major developments in productive forces always come after changes in production relations. The process of constantly revolutionizing production relations is a process of simultaneously changing all three aspects of these relations: the ownership system, mutual relations within production, and the system of distribution of the social product. The direction of the process is from private to collective to state ownership and finally to ownership by the whole people; from one person management to party committee control and other forms of democratic management; and from individual consumption to collective, from pay according to work to recompensation according to need.

By stressing the need for simultaneous revolutionization of all three aspects of production relations, Mao discarded the evolutionary and mechanistic beliefs inherent in the “system theory” and stressed the revolutionary potential of socialism instead. This approach manifested itself in many respects. First of all, Mao saw the Great Leap Forward in 1958 as a conscious attempt to evade the inherent logic and implicit social consequences of the law of value as identified by Marx in *Capital*. The Leap did not justify its costs economically speak-

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9. A designation introduced by Bill Brugger in Brugger (ed.), *China, The Impact of the Cultural Revolution*. Croom Helm, 1978.

10. In “On the ‘Restoration of Capitalism’—Mao and Marxist Theory,” (*Modern China*, vol. 5, no. 1, pp. 41-78), Joseph W. Esherick traces the roots of the analytical concept “Restoration of Capitalism” in Marxist literature and in Mao’s writings. He sees Mao’s contribution to socialist theory as being the development of the analytical concept “capitalist restoration.” But it becomes apparent from Esherick’s article that Mao’s contribution in this respect cannot be identified by explicit reference to his own works, but only by induction. Therefore, we find it more fruitful to trace Mao’s “generative class theory,” which can be substantiated by references, and which is, actually, a blueprint for the theory of the Shanghai School, which expounded the concept of “capitalist restoration” by taking Mao’s “generative class theory” as one of its starting points.

11. “*Guanyu zhengque chuli renmin neibu maodun de wenti*” (1957) (On the Correct Handling of Contradictions Among the People). *Mao Zedong xuanji* (Selected Works of Mao Tse-tung), vol. V. Beijing: Renmin Chubanshe, 1977, pp. 363-402, p. 389.

12. “*Guanyu nongye hezuohua wenti*” (1955) (On the Co-operative Transformation of Agriculture), *Mao Zedong Xuanji*, vol. V, pp. 168-91, where Mao argues that cooperativization precedes industrialization on a big scale and consequently mechanization of agriculture.

13. “*Guanyu zhengque . . .*” p. 392.

14. “*Guanyu ‘Sulian shehui zhuyi jingji wenti’ yi shu de jianghua*” (1958) (Speech Concerning “Economic Problems of Socialism in the USSR,” in: Mao Tse-tung, *A Critique . . .* pp. 129-134), Wansui-69, pp. 247-251; “*Dui Sidalin ‘Sulian shehui zhuyi jingji wenti’ de piyu*” (1959) (Critique of Stalin’s “Economic Problems of Socialism in the USSR,” in: *ibid.*, pp. 135-137), Wansui-67, pp. 156-166.

**According to the Shanghai School's theory, socialism is a transitional society consisting of both communist and capitalist factors and elements, existing simultaneously within socialist relations of production. The capitalist factors are not simply surviving elements of capitalist structure but are factors reproduced through the social and economic processes in socialist society.**

ing, but it was necessary in political terms in order to satisfy new demands of production. Secondly, the always incomplete process of continually revolutionizing production relations will exert its influence on the economy, which will move forward in leaps and bounds and will constantly suffer from imbalances. Mao disagreed with the "system theory" that regarded balanced and proportionate development as an objective law. He argued that it can only be regarded as a political imperative. Consequently, development is wave-like, leaps are followed by stagnation, maybe even retrogression, until followed by new leaps. Finally, Mao argued that planning can by no means be meta-historic, always securing proportionate development and correct coordination between supply and demand. The role of planning is to maintain a certain equilibrium, but this can only be done temporarily. Planning is a process of learning and planning can only be perfected by studying leaps and bounds, disproportions and imbalances, whenever they occur. Therefore, plans do not belong to the economic base—as claimed in the "system theory"—but to the superstructure, as a form of consciousness.

On the question of the existence of the law of value and of a commodity economy in socialist society, Mao basically agreed with Stalin's viewpoints. But he did dispute Stalin's assertion that the means of production are not commodities simply because they are produced by state-owned enterprises and transferred within the state-owned sector. Mao argued that as long as there are two ownership systems, collective and state, means of production will still be exchanged as commodities. Therefore, the only way to finally do away with commodity production is—given the necessary stage of development of productive forces—to carry through the transition to ownership by the whole people within all spheres of production, to go from exchange of commodities to exchange of products and from exchange of value to exchange of *use-value*.\*

During the third phase Mao again focused on China's internal problems, and especially on the nature of class struggle. This led finally to his formulating the "generative class theory" around 1964–65. This process can be traced in the development of Mao's vocabulary during the period, but let us first summarize the preconditions. In the mid-fifties Mao had pointed out

\* Whereas Marx saw a close connection in the contradiction between exchange value and use value within commodities under capitalism and the existence of class struggle in capitalist societies, Mao did not draw the same conclusions concerning class struggle under socialism. To him the law of value was a purely economic phenomenon.

that the turbulent class struggles of the past had come to an end. But at the same time he asserted that the bourgeoisie still existed, and that the contradiction between the bourgeoisie on the one hand and the proletariat on the other would continue to exist for a considerable period.\* Class struggle was by no means over and might even evolve into a state of violent clashes between antagonistic classes and political groups.<sup>15</sup> This posed the question of whether the struggle came from the old, now socialized, bourgeoisie or a new one generated within socialist society. Mao was far from clear on this point. In "Reading Notes" he did, however, argue that there are "vested interest groups" and "conservative strata" in socialist society trying at each new phase of social development to exert their influence to consolidate development and prevent further changes in order to protect their own vested interests and privileges.

Basing himself on these theoretical observations, Mao quickly moved towards new insights when combining them with actual developments in China during the period 1961–64/5. In early 1962 he argued that in socialist society the working class is confronted with "new bourgeois elements" generated within the given social framework and that these are also to be found within the Communist Party, thus opposing socialism from within.<sup>16</sup> In August 1962 he stated that class struggle most importantly was aimed at new non-socialist forces, i.e., new bourgeois elements and "people walking the capitalist road." Here Mao for the first time used the concept of "capitalist roader." He furthermore stated that China might change color and become revisionist or even fascist if these people were allowed to make policy.<sup>17</sup>

Later in 1962 Mao advocated the policy of continued class struggle in the essay, "The Party's Basic Line For the Historical Period of Socialism," but this was only a summary of theoretical concepts presented previously.

During the period 1961–65 Mao more than once criticized the leadership's desire for privileges and warned people in leading positions against trying to protect their vested interests. All these points were summarized and further elaborated upon in "On Khrushchev's Phony Communism and Its Historical Lesson For the World" (1964), which presented an analysis of "capitalist restoration" in the Soviet Union and attempted to identify the material basis for a new privileged layer taking over power in a socialist society. This analysis was primarily made for foreign policy reasons, and Mao never applied this analytical approach in detail to China. But he obviously thought a similar restoration possible in China.

\* According to *Mao Zedong Xuanji*, vol. V, p. 65. Mao, as early as 1953, had already identified the main contradiction in socialist society as being that between the bourgeoisie and the proletariat. It has to be borne in mind, however, that vol. V of the Xuanji was published *after Mao died* under the auspices of Hua Guofeng. It has been proved that some of the texts were revised, crucial words were changed and paragraphs inserted or omitted. So this short quotation from 1953 may be an invention of the editors made for political reasons.

15. "Guanyu Zhengque . . ." p. 389.

16. "Zai kuoda de zhongyang gongzuo huiyi shang de jianghua" (Talk at the Enlarged Work Conference of the Centre), Wansui-69, pp. 399-423, here pp. 406-407.

17. "Zai Beidaihe zhongyang gongzuo huiyishang de jianghua" (Talk at the Central Work Conference in Beidaihe), Wansui-69, pp. 423-429, here pp. 424-428. The manuscript for this talk is probably the most important source for identifying Mao's theoretical stand in this period.

Even though he would not admit to the existence of new classes of social layers in China (specifically a “new bourgeoisie”), he said that it was important to focus on “people in power within the communist party.”<sup>18</sup> They were identified later in December that year as the protagonists of capitalist policies and branded “people in power within the communist party walking along the capitalist road.”<sup>19</sup> Thus Mao had formulated the basic analytical concept of his “generative class theory.”

In May 1967 he commented further on the issue of “capitalist roaders.” He stated that they were old revolutionaries who had stopped with the democratic revolution. They did not want to make socialist revolution, and consequently propagated capitalist policies.<sup>20</sup> By identifying the Communist Party as the nodal point in the overall social process whereby the new bourgeoisie is generated, and by pointing out the need for continued class struggle, Mao not only presented a new conception of socialist society; he also provided a guideline for future political struggles in China. As Mao was not willing directly to admit to the existence of a new bourgeoisie as a class, but only as a “stratum,” “elements,” etc., it may be argued that his “generative class theory” was at most a sociological theory. Apparently he never succeeded in combining his insights in the political economy of socialism with his new theory of classes and class struggle. But with the publication in 1976 of his “Instructions” (which we shall deal with later on), he may have reached new understandings, especially during his last ten years while cooperating with the new cultural revolutionary theoreticians such as Zhang Chunqiao and Yao Wenyan.

### **The Shanghai School and “Political Economy of Socialism”**

After the many tumultuous events of the Cultural Revolution and its many programmatic and organizational reforms, a theoretical summary had to be made—a summary which could draw theoretical conclusions from the practical experiences and put them into a theoretical framework. After the de facto suspension of the most radical cultural revolutionary reforms from 1967 and onwards, the “cultural revolutionary” wing within the CCP had to try to maintain at least the theoretical perspectives of the Cultural Revolution.

From 1970 to 1976—especially after the fall of Lin Biao in 1971—an intense effort was made to develop a comprehensive, independent Chinese theory on socialism. The result was the manual “Political Economy of Socialism” (PES), which was based on the cultural revolutionary experiences and Mao’s interpretation of the nature and structure of Chinese society. This work was mainly carried out by a group of economists from Shanghai, many of them connected with the Institute of Political Economy at Fudan University. (We shall call this group the “Shanghai School.”) The purpose of writing the manual was to summarize and develop the theoretical basis of the actual policy propagated by the “cultural revolutionary” wing within the CCP.

**When one uses money and prices, the price of a commodity may be higher than its value. Production of this kind of commodity will earn a bigger profit than the average item, and therefore it may become attractive for certain enterprises to maximize their profit by producing that kind of commodity rather than less profitable (but socially useful) ones.**

We do not know the exact nature of the relationship between the “Shanghai School” and the “cultural revolutionary” wing, but without doubt Zhang Chunqiao and Yao Wenyan took active part in the work and Zhang Chunqiao played an especially important role. After their arrest in October 1976, the “Gang of Four” and the Shanghai School were accused of having planned to canonize “Zhang Chunqiao Thought.”<sup>21</sup>

The final edition of “Political Economy of Socialism” never appeared. The printing press was stopped by the coup d’état on October 6, 1976. The book was confiscated and a year later it was condemned as a work intended to create “the theoretical basis for the counterrevolutionary program of the ‘Gang of Four.’”<sup>22</sup> Later we shall present a rough outline of the theoretical content of the final edition of “Political Economy of Socialism.” As the process of writing this book, however, ran through many stages and phases and took the form of a constant and thorough-going revision and development of the theory, we have chosen also to describe the different manuscripts which were written during the process.

It is a general rule that discussions and decisions concerning important political matters in China occur behind closed doors. Solutions and documents are not presented to the public until an agreement has been reached. Apart from the more chaotic periods of the Cultural Revolution this has been the main pattern of political life in China ever since 1949. But this procedure was *not* followed during the process of writing “PES,” even though it was of considerable importance to the policymakers of the “cultural revolutionary” wing within the CCP. All the manuscripts were published in limited numbers in order to give people an opportunity to make comments on the manuscripts and thus contribute to the constant improvement of the theory. In this way there are rich opportunities for comparatively open discussions on the theory. It is remarkable to see how thorough were the changes made during the relatively short period from 1971 to 1976. Original self-contradictions were gradually solved and the final edition of “PES” presented a comprehensive and consistent theory. This theory analyzes the social basis of class contradictions in Chinese society. In contrast to the above-mentioned Soviet “system theory,” this theory could not be used to legitimate the Chinese social structure: it was a “critical” theory.\*

18. “Zhongyang gongzuo zuotanhui jiyao” (Summary of the Central Work Conference), Wansui-69, pp. 578-97, here p. 582.

19. “Zai zhongyang gongzuo huiyishang de jianghua” (Talk at the Central Work Conference), Wansui-69, pp. 598-602, here p. 599.

20. “Dui Arbaniya junshi daibiaotuan de jianghua” (1967) (Talk to the Albanian Military Delegation), Wansui-69, pp. 673-679, here p. 677-678.

21. *Renmin Ribao* (The People’s Daily), November 24, 1977.

22. *Ibid.*

\* Peer Moller Christensen had access to the 1972 and 1975 manuscripts when he was a foreign exchange student at Fudan University in Shanghai in 1979. As for the unpublished 1976 manuscript, we have only had access to selected quotations from it published by the Chinese press after the coup in 1976. The rest of



## The Starting Point

When writing a manual on the political economy of socialism during the '70s, Chinese economists could base themselves upon Mao's conception of socialism as well as on the Soviet "Textbook" and a manual written in Shanghai in 1961.<sup>23</sup> But at the same time it would be necessary to further develop Mao's theory of socialism by incorporating criticisms of what was considered to be the "capitalist restoration" in the Soviet Union as well as the experiences from the actual class struggles during the Cultural Revolution. Therefore a manual on political economy of socialism would have to provide answers to the following questions:

- How could the Soviet Union have turned capitalist?
- Can China turn capitalist as well? If so, how could this happen and what could be done to prevent it?
- Can a bourgeoisie be generated in China that might eventually usurp political and economic power? If the answer is positive, what will this bourgeoisie be like, and will it be able to initiate and promote a capitalist development?

The following description of the development of the theory elaborated by the Shanghai School will emphasize those elements in the different manuscripts representing phases in the criticism of the Stalinist "system theory." In this connection we particularly want to examine how the books answer the above-mentioned questions. In our opinion the answers provided to these questions gradually burst the dogmas and formulas of the "system theory." Therefore, we do not intend to give a total and complete picture of the books and manuscripts, but only intend to describe the main theoretical development.

## The First Manuscript

From 1971 to 1976 five versions of "Political Economy of Socialism" were written. The actual work started in June 1971 when Zhang Chunqiao approved the plans for writing such a book. The first manuscript was presented in September 1972.<sup>24</sup> According to that manuscript, the main feature of socialism is the abolition of private ownership of the means of production. Socialism is a coherent social system basically different from capitalism. The socialist system determines the character of the various elements within the system, which, therefore, *a priori* are different from their capitalist counterparts.

In describing socialism the manuscript used China as an example—as a concrete manifestation of the conception of socialism. Apart from the fact that this brought the theory close to becoming a theory of legitimation, it also implied that certain phenomena in Chinese society *a priori* are defined as socialist and therefore fundamentally different from similar phenomena inside capitalist societies. Economic categories such as commodity, money, wage, capital, profit, etc. found to be objectively existing within Chinese society are not equivalent to their capitalist counterparts. On the contrary, only the form is the

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the manuscripts have been unavailable to us, but fortunately the Shanghai School customarily printed popular versions of the *PES*, thereby making it possible for us to analyze the main trends of thought in the unavailable manuscripts. The popular versions were published in greater numbers and were more widely distributed than the originals.

23. "Zhengzhi jingjixue jiaocai" (*Shehui zhuyi bufen*) (Teaching Material on Political Economy. (Socialism-part)), Shanghai, 1961.

24. "Shehui zhuyi zhengzhi jingjixue" (*Zhengqiu yijian gao*) (Political Economy of Socialism). (Manuscript to be commented) Shanghai 1972. (Hereafter "PES." Shanghai 1972).

same. In socialist society these phenomena are *socialist*. This way of conceiving economic categories was a legacy from Stalin, and for a long time it was an obstacle to making a realistic and concrete analysis of actual problems in Chinese society.

According to this manuscript, the abolition of private ownership to the means of production has made comprehensive economic planning possible. Introduction of conscious planning has in itself caused a change in the nature of socialist production that is basically different from private production. Socialist production is, fundamentally speaking, directly social production, and labor in socialist production is therefore no longer private labor but directly social labor producing directly social products. As exchange within socialism, however, takes the form of commodity exchange, the products of socialist production also contain "value." Therefore socialist production is a unity of a directly social-working process and a value-creating process.

This conception originates in the Soviet textbooks on the political economy of socialism. In our opinion it is a theoretical misconception, an ideologization of reality. According to Marx, directly social labor is work which does *not* have to use the value form to realize its social content. All commodities are a unity of use-value as well as exchange value, and this unity is actually what the manuscript describes. When distribution of products in China has to take the form of commodity exchange, it really shows that Chinese economic planning is insufficient to make production directly social and work directly social labor.

In the 1961 manual from Shanghai all production under socialism had been described as commodity production, but still as a form of commodity production which is basically different from commodity production under capitalism. According to the 1972 manuscript of "PES," all commodity production under socialism is not only basically different from its capitalist counterpart, but a part of production under socialism is simply no longer regarded as commodity production. Exchange within the state-owned sector of the economy is not called "commodity exchange" but "product exchange." Product exchange is not realized through a market but through state allocation based upon economic plans.

In this way the 1972 manuscript adheres to ideas propagated in "Economic Problems of Socialism in the USSR," where Stalin wrote that the reason for the objective existence of commodity relations within socialist society is the existence of two forms of ownership, collective and state-ownership. According to Stalin, exchange within the state-owned sector of the economy (primarily exchange of means of production) can no longer be called commodity exchange.<sup>25</sup> Similarly the 1972 manuscript asserts that socialist product exchange as well as commodity exchange are basically different from all other forms of commodity exchange known down through history. With these new forms of exchange, elements of a direct distribution of means of production and goods for consumption emerge, elements pointing forward towards communism.

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25. Stalin: "Economic Problems of Socialism in the USSR," 1952. Beijing. FLP, 1972, p. 53 ff.



All in all, the conception of socialism presented by this manuscript is a mere duplication of Stalin's basic ideas and concepts. It contains the implicit conclusion that, due to the abolition of private ownership of the means of production, the bourgeoisie has lost the social basis for exerting its power, and consequently the bourgeoisie will never reemerge. Therefore there is no longer any risk of a "capitalist restoration." The most important aim in socialist society is, therefore, to develop productive forces through planned production. This will lead socialist society to a gradual transition to communism.

The most apparent self-contradiction in the 1972 manuscript is between the authors' repetition of the fundamental concepts and ideas propagated by the "system theory" on the one hand, and the incorporation of Mao's critical viewpoints and his rejection of the conception of socialism of the "system theory" on the other. A few examples should suffice to show this:

—Even though the authors of the manuscript considered the change in the system of ownership the constituting factor of socialism, they also stated that the question of ownership has not been completely solved in China: a major part of the Chinese economy is still collectively owned and, therefore, only socialist to a certain degree. Furthermore, there is still a problem with the leadership in the state-owned sector of the economy. If power slips from the hands of the working class and "true marxists," the "bourgeoisie and its agents inside the party, walking the capitalist road," may transform the enterprises into capitalist ones. In this way the bourgeoisie may usurp power and lead the country in a capitalist direction. This, states the manuscript, was what had happened in the Soviet Union.

—The 1961 manual had also come to the conclusion that the collective sector might change character and turn capitalist if the leadership-power of the *collectively owned units* was usurped by rich peasants and higher middle-peasants. In the 1972 manuscript the question of leadership-power was extended to include relations within the *state-owned sector*. In this way the first step was taken to reject the schematic division inherited from Mao, of the relations of production in three elements: (a) the ownership system; (b) mutual relations within production; and (c) the distribution system. Mao had inherited this schematic *tripartition* from Soviet Marxism and it had been part of the Stalinist legacy adhered to by the CCP. Conceiving the problem of leadership as a constituent element of the ownership system, however, makes this tripartition analytically inapplicable. As long as the relations of ownership were synonymous with formal, legal relations, there was no problem. But when interpreting leadership-power—which belongs to the category of mutual relations within production—as being a constituent element of the ownership system, the demarcation line between the aspects of the relations of production is blurred. Consequently, you have to approach the relations of production as a *totality*.\* On the one hand, the transformation of the relations of production is not simply a legal transformation of the ownership of the means

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\* Despite this new recognition, the 1972 manuscript still takes the tripartition of production relations as the basis for the description and analysis of socialist society. Furthermore, this apparent self-contradiction was never dealt with by the Shanghai School in later manuscripts.

## CHINA CHECKLIST

- Americans and Chinese: PASSAGE TO DIFFERENCES* by Francis L. K. Hsu. A classic comparative interpretation of Chinese and American life, updated and revised by the author. Using these cultures to criticize each other, Hsu illuminates both. Fall 1981, hardcover \$22.50, paperback \$9.95
- The Quality of Mercy: AMNESTIES AND TRADITIONAL CHINESE JUSTICE* by Brian E. McKnight. The notion, current in most of the standard texts, that the Sung dynasty marked the start of the "Later Empire" is challenged by McKnight's findings. Spring 1981, \$15.00
- China's Island Frontier: STUDIES IN THE HISTORICAL GEOGRAPHY OF TAIWAN* edited by Ronald G. Knapp. Eleven essays provide a multifaceted look at the patterns and processes of Taiwan's historical geography. Fall 1980, \$20.00
- Ethnic Groups and Social Change in a Chinese Market Town* by C. Fred Blake. How people use ethnic identities to organize and to reorganize social relations in the process of adapting to a changing environment. *Asian Studies at Hawaii*, No. 27. Spring 1981, paperback \$10.50
- Moving a Mountain: CULTURAL CHANGE IN CHINA* edited by Godwin C. Chu and Francis L. K. Hsu. Seventeen essays examine the role of the media in the process of cultural change in China from 1950 until the downfall of the "Gang of Four." *An East-West Center Book*, 1979, \$17.50
- Popular Media in China: SHAPING NEW CULTURAL PATTERNS* edited by Godwin C. Chu. Eight essays examine some of the propaganda tools used in the PRC—revolutionary opera, children's songs, serial picture books, short stories, and big character posters. *An East-West Center Book*, 1978, \$12.00
- Radical Change through Communication in Mao's China* by Godwin C. Chu. Chu's analysis, based on communication theory, describes how the Communist Party was able to transform the social, political, and economic life of the Chinese people through skillful use of communication. *An East-West Center Book*, 1977, \$15.00

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## The Second Manuscript

of production. On the other hand, transforming the relations of production is a necessary prerequisite for developing the productive forces. In this respect this manuscript adopts Mao's idea from "Reading Notes" that "A change in the relations of production always precedes a major development of the productive forces."<sup>26</sup>

—Even though it is stated that planning changes the nature of production, the manuscript adheres to Mao's idea on the incompleteness of planning. The authors of the manuscript state that a plan can never guarantee a development with complete sectoral balance:

*Nothing in the whole world develops in complete equilibrium. Equilibrium is temporary and relative, disequilibrium constant and absolute.*<sup>27</sup>

—The manuscript attempts an analysis of a "new bourgeoisie" which might take the lead in a "capitalist restoration" by introducing two concepts, "those inside the party taking the capitalist road," and the "bureaucratic monopoly bourgeoisie." But the manuscript does not identify the material basis for the emergence of this "new bourgeoisie" or for a possible capitalist development. It only points out illegal, "system-external" factors in this process: the ideological influence from the bourgeoisie, "capitalist traditions and birthmarks," and the illegal sprouts of capitalism such as black market, corruption and the like.

—This manuscript describes economic categories under socialism as fundamentally different from their counterparts in capitalist economies, thus making it impossible to explain how the same economic categories and phenomena may become constituents in a capitalist process of production.

—Furthermore, the 1972 manuscript describes exchange within the state-owned sector as a form of exchange which can no longer be called "commodity-exchange." What would then be the precondition for transforming this "product-exchange" back into capitalist commodity-exchange?

It can be seen that this manuscript contained a lot of self-contradictions and inconsistencies, which had to be solved in the following process of rewriting and revision. After its publication in September 1972, the Shanghai daily, *Wenhuibao*, published a number of articles under the headline "Study Some Political Economy." They presented the most important ideas and concepts from the manuscript in a more popular form and subsequently compiled and published them in November 1972 in a small pamphlet again called "Study Some Political Economy."<sup>28</sup> The book carried the same introduction as the manuscript, an essay by Fang Hai originally published in the Magazine *Hong Qi*.<sup>29</sup> The purpose of publishing the book seems to have been to start a broad public study campaign and discussion on the political economy of socialism.

When the first manuscript was finished in September 1972, Zhang Chunqiao and Yao Wenyuan left Beijing for Shanghai in order to arrange a meeting to discuss the problems which had arisen in the writing.<sup>30</sup> The meeting took place in October and Zhang Chunqiao presented some new "directives" on the basic theory and line of argumentation presented by the book. The directives suggested the following themes to be elaborated upon and they were to provide the theoretical nuclei of the book:

- 1. There are capitalist factors *inside* socialist relations of production.
- 2. The question of ownership is a question of power.
- 3. Mutual relations within the working people are class-relations.<sup>31</sup>

The first thorough revision of the manuscript was made after this meeting, and the process of revision was finished and the second manuscript written some time during 1973.<sup>32</sup>

The manuscript itself is unavailable, but in May 1974 another popular manual on political economy entitled "Fundamentals of Political Economy"<sup>33</sup> was published in Shanghai. Even though the manuscript had been revised, the theoretical contents do not seem to have been basically altered. The three themes mentioned by Zhang Chunqiao at the meeting in October 1972 were not elaborated upon; for example, the concept "capitalist factors inside socialist relations of production" was not mentioned at all. (In fact it was not to reappear until the final edition in October 1976.) The self-contradictions so manifest in the first manuscript remained, and the authors still adhered to the fundamental ideas of the "system theory" which excluded the possibility of a "capitalist restoration."

## Mao's 1975 Instructions

Shortly after the Fourth National People's Congress in January 1975, the national media published a quotation of Mao's which started a mass discussion campaign, "The Campaign for Studying the Theory of Proletarian Dictatorship." Mao did not take part in the NPC session, and many China-watchers interpreted this as his way of showing disagreement with the decisions taken by the Congress. If this is true, the publication of the quotation and the following campaign might be an answer to the Congress made by him and his political allies.

In the quotation which was called "Mao's Latest Instruction on the Question of Theory," Mao states:

*In a word, China is a socialist country. Before liberation she was much the same as capitalism. Even now she practices an eight-grade wage-system, distribution to each according to his work and exchange by means of money, which are scarcely different from those in the old society. What is different is that the system of ownership has changed.*

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26. "PES," Shanghai, 1972, p. 120.

27. *Ibid.*, p. 164.

28. "Xuedian zhengzhi jingjixue," Shanghai, 1972.

29. *Hongqi* no. 7, 1972.

30. *Guangming Ribao*, January 16, 1978.

31. *Ibid.*

32. "Shehui zhuyi zhengzhi jingjixue" (*Modinggao*), "PES" (Final draft), Shanghai, 1973.

33. *Zhengzhi jingjixue jichu zhishi*, Shanghai, 1974. It has been translated into English and published by M.E. Sharpe: "Fundamentals of Political Economy," ed. by George Wang (New York, 1977).

— Our country at present practices a commodity system, and the wage-system is unequal too, there being the eight-grade wage-system, etc.; these can only be restricted under the dictatorship of the proletariat. Thus it would be quite easy for people like Lin Biao to push the capitalist system, if they came to power.<sup>34</sup>

This quotation fits perfectly into the theoretical development of the Shanghai School. It solved one fundamental theoretical problem of the first two manuscripts, the contradiction between the Stalinist conception of socialism on the one hand, and the claim that a “capitalist restoration” could take place on the other. According to Mao, socialist economic categories such as commodity, money and wage are not basically different from their capitalist counterparts. On the contrary there is no qualitative difference, and they could, therefore, quite easily become functional in a capitalist production process.

In the same year, Yao Wenyuan and Zhang Chunqiao published articles, in March and April respectively.<sup>35</sup> They elaborated further upon the ideas presented in Mao’s “Instruction” and on the framework and issues raised by the manuscripts of the “PES.” The close connection between the start of the “Campaign for Studying the Theory of Proletarian Dictatorship” and the theoretical work done by the Shanghai School is made clear by the fact that Yao Wenyuan and Zhang Chunqiao’s articles as well as Mao’s “Instruction” initiated the campaign. Yao Wenyuan and Zhang Chunqiao, who were both in the “Cultural Revolutionary” wing of the CCP, were directly involved in the theoretical work with the “PES” in Shanghai. Nevertheless, it has to be underlined that the campaign was not only a part of the theoretical development of the Shanghai School; it was also the starting point of a new and very intense political struggle in China.

In their articles Yao Wenyuan and Zhang Chunqiao used the designation “the Lin Biao clique” as a synonym for “the new bourgeoisie.” Apparently, the articles were not directed at Lin Biao and his political allies. They were attempts at analyzing the material and social basis for the appearance of a “new bourgeoisie” and the possibility of a “capitalist restoration.” No doubt, the object of the analysis was a much broader social group than the group around Lin Biao. According to the articles the problem with the “new bourgeoisie” had not been solved by purging Lin and his group. The “new bourgeoisie” was still to be found in powerful positions in China.\*

Taken as a whole, Mao’s “Instruction” and Yao Wenyuan’s and Zhang Chunqiao’s articles presented a solution to the most conspicuous weaknesses and self-contradictions of the second manuscript of the “PES”: the first being the absence of an analysis of the material basis for the emergence of a “new bourgeoisie”; and the second the contradiction between the

34. *Peking Review*, February 28, 1975.

35. Yao Wenyuan: *On the social basis of the Lin Piao-anti-party-clique*. *Peking Review*, March 7, 1975. Chang Chun-chiao: *On exercising all-round dictatorship over the bourgeoisie*. *Peking Review*, April 4, 1975.

\* Seen from a theoretical point of view, it is difficult to understand why the Lin Biao group was used as a target, but it has to be borne in mind that Lin Biao was the most recent victim of inner-party struggle in China, and following the rules and traditions of political strife in China, theoretical criticisms and analysis frequently are made as criticisms of the most recently degraded political opponent, regardless of actual political viewpoints.

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interpretation of economic categories and mechanisms under socialism as fundamentally different from those under capitalism, and the supposition that a “capitalist restoration” is a possibility under socialism.

In their articles Yao Wenyuan and Zhang Chunqiao pointed at “bourgeois right” as the material basis for the emergence of capitalism and a “new bourgeoisie.” They rejected the views presented by the first two manuscripts of “PES,” where “bourgeois right” was regarded as a phenomenon closely connected with the “three major differences” (i.e., the differences between city and countryside, between worker and peasant, and between intellectual work and manual work) and as a principle primarily functioning within the sphere of distribution. Yao and Zhang regarded “bourgeois right” as a more general concept, as *exchange at equal values* with its roots in commodity-production, and playing a role within all aspects of relations of production. In accordance with Mao’s “Instruction,” they stressed that it is possible for a “new bourgeoisie” to promote a capitalist development because socialist economic categories and mechanisms are not basically different from their capitalist counterparts.

### The Third Manuscript

After the publication of Yao Wenyuan and Zhang Chunqiao's articles, the second major revision of the manuscript of the "PES" was started. The revision resulted in the third manuscript.<sup>36</sup> This manuscript incorporated the theoretical viewpoints contained in Mao's "Instruction" and in Yao and Zhang's articles. But at the same time, the concept "product-exchange" was still used to describe exchange within the state-owned sector of the economy. The idea that socialist commodities are not basically different from their capitalist counterparts did not include products produced and exchanged within the state-owned sector. Even though Mao's "Instruction" and Yao and Zhang's articles were an enormous inspiration to the Shanghai School's theoretical clarifications, the "PES" still contained ambiguities and self-contradictions in 1975.

### The Fourth Manuscript

The fourth manuscript of the "PES" was written during the period from June 1975 to December 1975, when Zhang Chunqiao corrected the draft himself. Unfortunately, we have not had access to this manuscript, but in December 1975 a revised edition of "Fundamentals of Political Economy" was published.<sup>37</sup> As it can be presumed that this manual was written on the basis of the fourth manuscript, it is possible to attain a fairly clear picture of the theoretical contents of the fourth manuscript.

The "Fundamentals" goes even further than the earlier manuscripts in two respects: in the analysis of the role of state under socialism; and in the analysis of commodity production under socialism.

- 1. *The analysis of the state.* The manual states that the socialist state is—in Lenin's words—a "bourgeois state" because it has to protect "bourgeois right." Consequently the transformation of private ownership of the means of production into state-ownership is *not* tantamount to a transformation of the system of ownership into a "non-bourgeois" form. Thus "Fundamentals" rejects the identification of socialism with state-ownership of the means of production, an idea which was still present in Zhang Chunqiao's article<sup>38</sup> and in the third manuscript. In this way the road had been paved for a more reasonable and logically consistent explanation of Soviet "state monopoly capitalism."
- 2. *The analysis of commodity production.* The manual rejects the concept "product-exchange" used in earlier manuscripts. According to the "Fundamentals," all exchange under socialism is commodity exchange, and this goes for exchange *within* the state-owned sector as well. This is a complete rejection of Stalin's idea concerning production within the state-owned sector. Actually, this had already been the case in the 1961 manual from Shanghai<sup>39</sup> which had stated that all exchange under socialism

is commodity exchange. But whereas the 1961 manual considered commodity exchange and commodity production under socialism to be fundamentally different from commodity exchange and commodity production under capitalism, "Fundamentals" stated that commodity exchange under socialism is not very different from its capitalist counterpart.

In these respects the 1975 edition of the "PES" represented a step forward both in rejecting Stalin's analysis of socialist commodity production and his general concept of socialism, and in the theoretical clarification of the Shanghai School. But it still contained a fundamental self-contradiction inherited from earlier manuscripts, i.e., the idea that production under socialism is a unity of direct social production and value creating production. This self-contradiction was not solved until the writing of the fifth and final manuscript of the "PES," which was to have been published in Shanghai in October 1976.

### The Fifth Manuscript

When the fourth manuscript of the "PES" was ready in December 1975 Zhang Chunqiao wrote a new "directive," which started the last major revision of the manuscript. In this "directive" he wrote:

*We must criticize revisionism. Criticize Liu, Lin and Deng.<sup>40</sup> Criticize Trotsky, Bukharin and the like. Political economy can not be written properly, if revisionism is not criticized. We must understand that the influence from Stalin's mistakes is still very strong.<sup>41</sup>*

The result of the revision was the fifth manuscript of the "PES."<sup>42</sup> The authors had planned to publish the book in October 1976, but, as noted, when the book was still in the press, the coup d'état of October 6 occurred and the manuscript was confiscated. After the coup the Chinese media heavily criticized the unpublished book and a similar one written in Tianjin in close cooperation with the Shanghai School.<sup>43</sup>

The critical media articles contain quite a few quotations from the two "PES" books, which were considered to be the result of the theoretical work of the "Gang of Four" and their supporters. (For a list of critical articles, see the Appendix.) Even though we have not had access to the two "PES" manuscripts, it has been possible—by means of the many quotations in newspapers and magazines—to get a fairly comprehensive

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36. "Shehuizhuyi zhengzhi jingjixue" (Modinggao dierban), "PES" (Second edition of the final draft), Shanghai, 1975.

37. *Zhengzhi jingjixue jichu zhishi* (Fundamentals of Political Economy), Shanghai, 1975.

38. See Bettelheim: *The Great Leap Backwards*.

39. See note 23.

40. Liu Shaoqi, Lin Biao, Deng Xiaoping.

41. *Renmin Ribao*, November 24, 1977.

42. *Shehuizhuyi zhengzhi jingjixue* (Political Economy of Socialism), Shanghai, 1976.

43. According to the *Guangming Ribao*, April 17, 1978, contact was established between the Shanghai School and a group from the Nankai University in Tianjin, also working on a manual on the political economy of socialism, in July 1975. The cooperation between the two groups was continued until 1976. The book written by the Tianjin group was published as late as November 1976 ("Political Economy" (Socialism part) (Revised Edition) (Tianjin, November 1976) and later it was criticized alongside the book written in Shanghai. We consider the Tianjin group as belonging to the Shanghai School. In reconstructing the theoretical contents of the final manuscript of the "PES" we have, therefore, also used quotations from this book, as they both are criticized for being "Gang of Four"-theory.

## Appendix

### Chronological list of articles in Chinese magazines and newspapers criticizing the Shanghai School.

Nov. 24, 1977, *People's Daily (PD)*: "A book which creates the theoretical basis for the counterrevolutionary program of 'the gang of four,' " by Dong Fureng and Tang Zongkan.

Dec. 5, 1977, *Guangmin Ribao (GR)*: "On socialist wages and their concrete forms," by Wu Jinglian, Zhou Shulian and Wang Haibo. (Continued in *GR* Dec. 12, 1977).

Jan. 16, 1978, *GR*: "A completely counterrevolutionary 'Political Economy,' " by Hu Naishi and Wang Yongzhi.

Jan. 20, 1978, *Jingji Yanjiu (JY)* no. 1, 1978: Leading article: "Lead the struggle to expose 'the gang of four' in the fields of economics to the end."

Feb. 20, 1978, *JY* no. 2, 1978: "Refute the theory invented by 'the gang of four' on 'the double character of socialist relations or production,' " by Hu Ruiling. And: "Will money inside the socialist economy necessarily create a bourgeoisie?" by Zhang Wenxiao.

March 20, 1978, *JY* no. 3, 1978: "A reactionary theoretical system," by Dong Fureng. And: "An example of how 'the gang of four' distorted the character of socialist commodity production," by Yang Dongqing.

April 5, 1978, *PD*: "Condemn a 'Political Economy,' " by Zhang Chaozun and Hu Naishi. And: "Refute the theory of the so-called 'two factors' of socialist relations of production," by Xing Hua.

April 17, 1978, *GR*: "Examples of phenomena pretending to be left but actually right, inside the political economy," by Ma Piao. And: "A bad book propagating the reactionary viewpoints of 'the gang of four,' " by He Wei.

April 20, 1978, *JY* no. 4, 1978: "Criticize the idealistic economic theory of 'the gang of four,' " by Hu Ruilong, Zhao Renwei and Duan Ruofei. And: "Refute the theory of the so-called 'two factors' inside the socialist relations of production," by Wei Xinghua. And: "Is the contradiction and struggle between the proletariat and the bourgeoisie the concentrated expression of the fundamental contradiction of socialism?" by Wang Qingbao.

April 24, 1978, *PD*: "Criticize the counterrevolutionary 'gang-book,' 'Political Economy of Socialism.' "

May 20, 1978, *JY* no. 5, 1978: "Are the socialist relations of production, relations between the proletariat and the bourgeoisie?" by Zhou Shyulian.

May 29, 1978, *GR*: "Socialist commodity exchange can not engender capitalism," by Li Guangzi.

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picture of the theoretical contents of the manuscripts. In the following we shall present the manuscripts as one theory of political economy of socialism elaborated by the Shanghai School immediately before their political defeat.

According to the Shanghai School's theory, socialism is a transitional society consisting of both communist and capitalist factors and elements, existing simultaneously within socialist relations of production. The capitalist factors are not simply surviving elements of capitalist structure but are factors reproduced through the social and economic processes in socialist society. They are found within all spheres of socialist economy. The existence of capitalist factors and elements within socialist relations of production implies that capitalism and a bourgeoisie are constantly produced and reproduced in socialist society. "The new bourgeoisie" emerges within the ranks of the working people and especially inside the Communist Party. The material basis for the emergence of a new bourgeoisie is to be found in the incompletely transformed structures of socialist society—i.e., in the above-mentioned capitalist factors and elements such as commodity, money, wage-relations, the exchange of equal values as a regulating principle in the economy and, finally, the continued existence of a division of labor inherited from the old society.

Division of labor leads to the development of an "intellectual aristocracy," which deprives the workers of the real right of leadership to the means of production. In this way the system of ownership will gradually change its nature. Within the enterprises there will emerge a system of intellectual workers ruling over manual workers. According to the final stand of the Shanghai School, such a system has to a certain degree already developed in China. Therefore the proletariat is already being ruled over and exploited by the "new bourgeoisie." Consequently the "new bourgeoisie" will be the most important adversary of the proletariat in the class struggles during the entire socialist period, and the "new bourgeoisie" must be regarded as the most important object of the revolution under the dictatorship of the proletariat.

The contradiction between the proletariat and the bourgeoisie is therefore the most important contradiction in socialist society; and class struggles, which are outcomes of this contradiction, will first of all be struggles for the extension or limitation of "bourgeois right," i.e., the capitalist factors and elements *within* the socialist relations of production.

The collectively-owned economy is an incompletely transformed structure within the ownership system. The means of production as well as the results of production are private property owned by individual collective units: production is, in that sense, *private* production. Furthermore, the question of the leadership of collective units as well as within the state-owned sector plays a very important role, with the decisive question being which class really controls the means of production. If the power structure of the leadership of an enterprise is changed, the "ownership" of the means of production may change accordingly. Socialist enterprises may change their nature and become the property of a bureaucratic monopoly-bourgeoisie if the workers are deprived of the leadership-power, i.e., the right to manage the enterprise or the collective unit. When the "new bourgeoisie" has the means of production in its hands it may be able further to promote a capitalist production process, because capitalist factors and elements already exist in all spheres of socialist production.

Socialist production, moreover, is the production of com-

modities. The existence of commodities and commodity production is not just due to the coexistence of the two forms of ownership, ownership by the state and collective ownership. Within the state-owned sector alone, an equally important reason is the relative independence of individual accounting enterprises such that the mutual relations *between* the enterprises will in fact be relations between individual "owners," and production even within the state-owned sector will again be *private* production.

The circulation of commodities under socialism can also be transformed into circulation of capital. If this transformation is carried through, labor power may again become a commodity and money can be transformed into capital. This transformation may come about if the necessary realization of value becomes the aim of commodity exchange instead of the realization of use-value. This is important because the law of value is the law of commodity production and here it is identified as playing an important role in the socialist economy. In other words, according to the 1976 "PES" manuscript, the law of value under socialism is not basically different from the law of value under capitalism. By letting the law of value regulate production the bourgeoisie can subordinate the production of use-values to the production of values. When one uses money and prices, the price of a commodity may be higher than its value. Production of this kind of commodity will earn a bigger profit than the average item, and therefore it may become attractive for certain enterprises to maximize their profit by producing that kind of commodity rather than less profitable (but socially useful) ones. Production aimed at realizing surplus-value may thus, under given circumstances, distort overall production and the allocation of occasionally scarce resources in a socialist society.

As mentioned above, a capitalist restoration may take place first and foremost because of the existence of this commodity circulation carried out by means of money. Furthermore, the "funds" of the various enterprises are only incompletely transformed forms of capital, thus being still very similar to capital in the old society. Therefore, it would not be necessary to change fundamentally the form or contents of such funds to have them performing the function of capital. The same goes for wages. The socialist principle, "To each according to one's work" is not basically different from wage labor. No fundamental transformation of the form and content of wages would be necessary to make labor power a commodity once again.

According to the 1976 manuscript, the ideological form of a "capitalist restoration" in China might well be like the "theory of productive forces" and "the four modernizations," both of which express the ideology of the "dying out of class struggle under socialism." To make sure that socialist society advances towards communism, then, it is said to be necessary to stage many "cultural revolutions," the aim of which will be gradually to limit and eliminate capitalist elements and those factors defined as "bourgeois right" within the relations of production, including the division of labor inherited from the old society. In this way the material basis for the emergence of a "new bourgeoisie" and capitalism can be eliminated.

The old division of labor has to be eliminated by the workers taking active part in and exerting control over the management of the enterprises and by forcing intellectual workers to take part regularly in manual work. The contradiction between intellectual and manual labor should be eliminated through these means and through a restructuring of the educational system, which gradually must eliminate the boundaries

between production and education. The material privileges of the "new bourgeoisie" must gradually be eliminated through a reform of the wage system. The reform must aim, first, at discarding the use of "material incentives" as the most important means of raising the enthusiasm of the workers, and second, at establishing a more even distribution of wages. Bonuses and piece-rate wages would be abolished and society as a whole would gradually leave the principle "to each according to one's work." Finally, production must be planned, in accordance with use-value criteria and, conversely, the influence of value categories must be limited.

### Comments on the Final Theory

The 1976 manuscript of the "Political Economy of Socialism" was the final result of a long process of theoretical development, which was suddenly and involuntarily cut off. It presents, if not a complete, then at any rate a consistent answer to the questions left unanswered by Mao, specifically how can a capitalist restoration take place in China or in any other socialist country, and which social forces will promote such a development?

Even though this final theoretical position solved most of the self-contradictions inherent in the earlier manuscripts of the "PES," it still contained a number of unclarified points and weaknesses. As mentioned above, the basic issue in the theoretical development of the Shanghai School seems to have been how capitalism can develop in a socialist society. But Mao and the Shanghai School never formulated a clear and consistent definition of capitalism. They described China before 1949 as "semi-feudal and semi-colonial" as well as "much the same as capitalism." Because of this ambiguity it is difficult to see why the difference between the Soviet Union and China is so great that China deserves to be called "socialist" while the Soviet Union is described as "capitalist." They did not say which structures within China's "socialist economy" have to be changed before it might be called one producing surplus value as in capitalist production.

Another weak point is the class analysis. The "new bourgeoisie" is defined as "the bureaucratic monopoly bourgeoisie" and "those performing intellectual work in production." How does this fit with the idea propagated by the manuscripts that the Communist Party is the main "hotbed" for this "new bourgeoisie"? This problem was left unsolved, because the Shanghai School lacked a critical analysis of the functions of the Communist Party in China.

Describing the specific measures which must be undertaken to prevent a "capitalist" restoration, the Shanghai school failed to make clear *who* the agents of these measures might be. They implicitly assign the Communist Party a central role in this process. This seems problematic after defining the party as the most important "hotbed" for the new bourgeoisie and capitalist tendencies. It seems that the members of the Shanghai School were able to criticize and abandon Stalin's economic ideas and theories, but when it came to practical political measures and their implementation they could get no further than clinging to Lenin's ideas and the theory of a vanguard party. This seems paradoxical when one recalls that the Shanghai School had its roots in the cultural revolutionary wing of the CCP which advocated replacing this very same party with other political structures.

Mao Zedong's theory and that of the Shanghai School emerged amidst factional struggles within a Communist Party which had inherited much Stalinist dogmatism and which was without political democracy. Within the political and theoretical traditions of either the CPSU or the CCP, it has been common practice to barrage opponents with abuse rather than conduct serious political debates. The eventual aim was always to purge opponents, not to come to terms with them. In this connection, the term "bourgeois," for example, has been one of many useful words in the treasury of abusive vocabulary. It might be argued that it should be unnecessary to pay any serious attention to one faction calling a competing faction "bourgeois" in its quest for power, because this is what the political culture demands.

In our opinion, however, this would be too hasty a conclusion. Even though Mao and the Shanghai School *were* influenced by rigid Stalinist dogmatism, it would be erroneous to write off the analytical potential of their theory. When looking at the entire theoretical process developed by Mao and the Shanghai School we find sufficient proof that their angle and analytical method were new. They showed an astounding desire to do away with the somewhat metaphysical conception of socialism prevalent in the "system theory" and to adapt a more realistic attitude towards some of the problems of Chinese society. They eventually worked out a platform for analyzing the incompletely transformed social and economic structures in so-called socialist societies. It is, after all, remarkable that a critical theory such as this could be conceived by leading political figures within the party and state of an allegedly socialist country.

But does the theory of the Shanghai School have real theoretical validity? What are the implications for understanding modern China? Does this theoretical platform in any way contribute to the still evolving theories on transitional society? These are extremely important questions that remain open, and we hope that further research may provide answers to them. ★

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