

Material Forces that Turn Socialism into Capitalism

by Charles Andrews

The Soviet Union and China proved that people can build socialism. They also showed that apparently firm socialist countries can fall to capitalism – from within and from the top of the communist party.

Should we give up on socialism, or shall we solve a problem: how do we keep on the communist road to a society of no rich and no poor, securing common prosperity for everyone, and with full development of our humanity in work?

Socialism started strong in the Soviet Union and China soon after their world-shaking revolutions. The working people defeated immediate attempts at overthrow by capitalist countries and local landlords, capitalists, and reactionaries. The new regimes made big strides in literacy, health care, putting an end to famines and providing enough food for everyone. Output rose and life got better. The two countries set up a socialist mode of production, allocating investment according to an overall plan.

Socialism started. If it is to march on to communism, we must carry out a series of advances in the relations of production: how we get the things we need and want (ultimately, without money); how we share the drudgery and how we all achieve the highest callings; and how we run complicated economic and government organizations without freezing people into order-givers and order-takers.¹

A second period of decayed socialism

Instead, the Soviet Union and China entered a second period of socialism. It began when the regime openly abandoned the communist mission and a series of projects to fulfill it. The period ended with conversion to a capitalist mode of production. In between, political-economic processes weakened socialism and made it ready for capitalism.

The second period began with specific events. In the Soviet Union the marker event was Khrushchev's pair of speeches in 1956 at the twentieth congress of the Communist Party of the Soviet Union. His first speech was

public, the second one “secret,” so secret that the gist of it appeared worldwide within days and the full text within four months.²

In his public speech, Khrushchev babbled on about peaceful, parliamentary transition from capitalism to socialism:

“Our enemies like to depict us Leninists as advocates of violence always and everywhere. True, we recognize the need for the revolutionary transformation of capitalist society into socialist society. It is this that distinguishes the revolutionary Marxists from the reformists, the opportunists. There is no doubt that in a number of capitalist countries the violent overthrow of the dictatorship of the bourgeoisie and the sharp aggravation of class struggle connected with this are inevitable. But the forms of social revolution vary. It is not true that we regard violence and civil war as the only way to remake society.”

“The working class, by rallying around itself the toiling peasantry, the intelligentsia, all patriotic forces, and resolutely repulsing the opportunist elements who are incapable of giving up the policy of compromise with the capitalists and landlords, is in a position to defeat the reactionary forces opposed to the popular interest, to capture a stable majority in parliament, and transform the latter from an organ of bourgeois democracy into a genuine instrument of the people’s will.”³

Khrushchev smeared three pages with mush before saying it: socialism can be won by elections. The Marxist-Leninist formulation is shorter and sharper. A revolution must expect anti-revolutionary violence and defeat it. Peaceful transition has never happened, but if it should offer itself, we’ll be happy to take it – arms in hand.

In his second, secret speech, Khrushchev slandered the entire period of socialist construction by denouncing Joseph Stalin. But if you investigate Khrushchev’s five dozen “revelations” about Stalin, you find that not one of them proves true. (Grover Furr did the investigation in *Khrushchev Lied*.)

From 1956 on, the Soviet Union took no steps to continue to communism. Instead, something ate away at socialism. This second period of decayed socialism ended with the collapse of the Soviet Union in 1991 when Boris Yeltsin was elected president of the Russian Federation and banned the Communist Party. Capitalist property and exploitation were set up at once.

China from Liberation in 1949 made enormous strides on the socialist road. Just compare the country that year with the country in 1976, when Mao Zedong died. But at the eleventh congress of the Communist Party of China in August 1977, Deng Xiaoping showed that he and his wing of the party were now in charge, not party chairman and premier Hua Guo-feng. Deng abandoned the communist mission. This second period ended with a changeover to the capitalist mode of production, for which we may take 1992-3 as the approximate completion date.

What happened during these 35 (Soviet) or 15 (Chinese) years? Material forces eroded socialism, preparing it to be turned into capitalism.

Decayed socialism is not the capitalist mode of production

In the Khrushchev and then Brezhnev years, the Soviet Union became a socialism that socialists have to be ashamed of – but it did not function as a capitalist mode of production.

Capitalism is populated by capitals that accumulate, fighting to grab the most profit. Each capital is a distinct unit, whether a sole proprietorship, partnership, corporation, state-owned firm, or state ministry. Different persons run these capitals.

The Soviet Union did not have such capitals and capitalists. It had schemers, white-collar thieves, and people able to grab all sorts of privileges in money and in kind from their position. But they did not carry out the circuit of capital, $M-C-M'$, that is, investing money in means of production and a wage fund, setting workers to produce commodities, and selling the commodities for a larger M' , for a profit.

Capital sees no end to accumulation. The formula is eternal: $M-C-M'-C-M''...$ One set of C is not the same as the preceding set of C . The capitalist changes his business. He scraps means of production and buys or builds more productive machinery. He leaves a sector of declining profit and seizes an opportunity for greater profit. The Soviet Union was not characterized by this economic motion. In the second period, government planning was done badly, but centers of capital did not exist, each free to pursue investment for profit.

Capitalists also need a ready market of labor power, workers whom they can hire when they want in the number they want. Then the capitalist needs freedom to toss out workers when he no longer has a use for them. A basic precondition for the capitalist's freedom to exploit is the continual existence of a reserve army of labor, of unemployment large enough to compel workers to submit.

Capitalist countries do have laws and regulations on the freedom to lay off workers. They might slow down a capitalist from time to time, but they do not make a fundamental difference. Most often, enforcement of the laws comes after the fact. The unemployed workers and occasionally a dedicated government staffer can challenge through some legal procedure what the capitalist already did.

The Soviet Union did not have such a market of labor power. It did not have a reserve pool of unemployed into which a boss could throw a bunch of workers.

A similar comparison can be made regarding authority in the factories, offices, and shops. In the capitalist mode of production, the capitalist has the authority to run things at the site of production. Even when workers have a trade union, the economic realities of the business limit their power to negotiate working conditions. Soviet enterprise managers, for all their personal corruption, lacked the ultimate capitalist whip: "You do it this way, or we lay you off."

There are those who merge the first, soaring period of Soviet socialism with its second, decaying period. Leon Trotsky hated the building of socialism while it was going on, and Trotskyites have labels that mash the two periods together. Their different groups use a variety of terms: degenerated workers' state, deformed workers' state, or bureaucratic collectivist state. None of these labels specifies a mode of production distinct from socialism and capitalism.

From Khrushchev to Gorbachev, the Soviet Union was not capitalist. It became a weaker socialism, a disgraceful example of socialism, a socialism that could not last. It ended with a rush into capitalism.

Privilege

Officials in the Khrushchev-Brezhnev era enjoyed a long list of privileges that separated them from the working class.

The 'Kremlin ration' (Kremlevski paek) and similar administrative benefits relieved the privileged from feeling shortages of consumer goods. "Rations' in the seventies take various forms, of which the most common is the right to buy a limited amount of goods at a closed shop or 'distributor'. Purchases are either made with vouchers issued at work, or on an account system, the cost of goods being debited from the recipient's salary. ... [The system] gives constant and easy access to deficit Soviet goods, and in some cases to selected Western ones, like American cigarettes and whiskey."⁴

"There are special sections for clothing in the GUM multiple store on Red Square... Their existence is not registered in published sources, and they do not look like shops from the outside. ... Admission is always by work-pass..."⁵

"Eating facilities in party offices have been the subject of frequent comment. The Central Committee building in Moscow, for example, possesses at least three dining-rooms, on different floors. ... The range and quality of food seem to be comparable to that served in very good restaurants outside, but the prices are considerably lower."⁶

"Special dairy herds are known to be kept in agricultural enterprises near Moscow. The Mikoyan Meat Processing Combine is said to have a separate production unit for high-quality meat: and finer bread is evidently baked in Moscow ... for favoured customers."⁷

The Ministry of Health ran "a closed system of hospitals, clinics and dispensaries... This is the widely-known Fourth Directorate of the Ministry. The right to register with it goes with certain jobs, and extends to the employees' dependants. There are no queues for services in the Fourth Directorate institutions and conditions for patients in its hospitals are much better. The Central Committee, for example, has its own hospital in the Moscow suburb of Kuntsevo. ... There are no more than three patients to a ward. ... The food is of very high quality, and includes even caviar."⁸

Restricted resorts were kept less crowded than most, and the price was cheap. Vacationing at such a resort was a privilege. Perhaps, though, you had corralled a fine dacha, nominally owned by the state, for your exclusive use.⁹

A student of the Soviet elite, setting as his criterion a minimum salary of four times the average worker's wage, found that the elite numbered around 160,000 persons. They were the top Party, state, trade union, and Komsomol officials and the top managers of enterprises. (We exclude people in the intelligentsia who enjoyed similar privileges but did not administer state power.)¹⁰

Privilege and power combined in what is called the nomenklatura. As typically used, the word means the persons who hold the prized positions of state, party, and economic management. A good chunk of the elite multiplied their money income by corruption, bribe-taking, and side deals.

The height of exceptional personal wealth apparently rose over time. A notable incident from 1974 was not possible in the Khrushchev years nor the early Brezhnev years. Yekaterina Furtseva, the Minister of Culture, built a dacha in the country in her daughter's name with state materials. It was worth the equivalent of about \$165,000 (huge for that day). When the case became public, Furtseva was required to pay the state about half that amount to keep the dacha – which she paid within a few days. While she lost her seat in the Supreme Soviet, she kept her position as Minister of Culture.¹¹

Furtseva was one of many.

Nasriddinova, “Chair of the USSR Soviet of Nationalities for many years, was relieved of the position and later removed from the CC for unbelievable scams involving dachas, fur coats, and cars. Her daughter's wedding cost the state almost a million rubles.”¹²

“One after another, cases of bribery, nepotism, theft of state property worth millions of rubles are coming to light (at the level of deputy ministers).”¹³

“Profiteering in the sales of Zhiguli, Volga and Moskvich [cars] has reached immense proportions.” Staff of “district committees, executive committees, city committees, heads of all kinds of business organizations and associations put themselves and their relatives at the front of the queue to buy cars from quotas for the region, city, etc.” They resold them for fat gains. The consequence if any was usually a reprimand or a severe reprimand.¹⁴

Visitors to the daughter of Primakov's dacha "came back shocked. They would not have believed it if they hadn't seen it with their own eyes: ... Twelve rooms, everything in imitation oak, imported home appliances, ... a Peugeot in the garage, a Zhiguli for the children.¹⁵

The example was set at the top. Brezhnev's son-in-law Churbanov "was prosecuted for 700,000 [rubles] in bribes that he got from all around the Soviet Union."¹⁶

The Communist Party of China, in the ninth of a series of open letters about Khrushchev's revisionism, noted:

"The members of this privileged stratum appropriate the fruits of the Soviet people's labour and pocket incomes that are dozens or even a hundred times those of the average Soviet worker and peasant. They not only secure high incomes in the form of high salaries, high awards, high royalties and a great variety of personal subsidies, but also use their privileged position to appropriate public property by graft and bribery. Completely divorced from the working people of the Soviet Union, they live the parasitical and decadent life of the bourgeoisie."¹⁷

The details listed by the Chinese are broadly correct. But was this stratum a capitalist class?

A matter of consumption and clientelism

The privileges of the Soviet nomenklatura were goods and services of consumption. Bribe money, too, for the most part was spent on consumption. The gains could not be converted into means of production and operated as capital.

Privileged officials did use their extra money, their powers of office, and their ability to share privilege with other officials to build clientele gangs. "Join me for a dinner" at a luxury restaurant. "Would you like to take a week of vacation at my dacha?" Bestowing favors and expecting loyalty in return built up circles who operated within the state, party, and state firms for their own interests. If the party secretary of a province was transferred to another province, he would bring along the clientele he had cultivated.

Illegal underground enterprises swelled in decayed socialism. Besides enriching the men who operated them, they offered bribes to officials willing to look the other way. These businesses exploited failures of the state

economy. An outsider, after bribing a factory manager, cannot steal raw materials (while the manager reports them as spoiled or stolen) if there is no state factory. The outsider might then sell the raw materials to another factory manager desperate to meet his plan target. Parasites on a state economy depend on the existence of that economy.

A high official had a lot to lose if he tried to run an underground firm on the side. It was safer and easier to enjoy the privileges that the entire nomenklatura gave itself, half-hid from the workers and peasants, along with the bribes on the side.

Privilege, corruption, and bribery do not constitute a distinct mode of production and exploitation.

We cannot imagine the end of feudalism without a new mode of production taking its place. English lords could no longer exploit serf villages in the old way by the twelfth century. Feudalism broke up under the blows of peasant rebellions, the breakdown of village collectivity, and the emergence of individual rich peasants full of petty bourgeois energy. Aristocratic families decayed into ruin, or they hustled to disband their retinue of knights and become commercial landowners who rented acreage to capitalist farmers, cottagers, and so on. Feudalism became capitalism.

Today, the working class cannot overthrow capitalism without putting a new mode of production in its place.

Privilege exists *within* exploitative agrarian societies, capitalism, and decayed socialism. Privileges may expand, and vigorous reform might reduce them. But the essence of a mode of exploitation is not privilege. Feudal nobles distributed rewards among themselves and to their retainers. The heart of feudalism, though, was exploitation of the peasants, the direct taking of their crops and their forced labor on estates of the lords and the church. As Karl Marx observed, the first question to ask is, how is a surplus extracted from the direct laborers? Distribution and redistribution of the surplus in different forms comes after the extraction.

Privilege and the push to capitalism

While privilege does not enjoy a place in history as a distinct mode of production, it was the material force that moved the Soviet ruling elite to capitalism by 1991.

We assume that most members of the Soviet elite had drive; they did not float into their positions on inherited wealth or family lineage. When socialism was vigorous, it called on the energy and dedication of communist officials. Overwork contributed to the early death of A. A. Zhdanov and other leading party members. Socialism is a series of communist projects, and Soviet leaders gave everything to make their project a success.

Khrushchev abandoned the communist goal in 1956. The situation did not allow him to go over to capitalism. Despite blustery slogans (“We will bury you!” to the U.S. imperialists), he offered no project to inspire the working people and dedicated communists. It is natural in this situation that person after person in the Soviet elite became comfortable in his position.

As the incident of Furtseva suggests, privilege and corruption grew over time. She and her daughter did not merely enjoy the restricted area of a state resort; they had their own facility. The Furtsevas had moved closer to a situation in which they might use wealth as capital. Why not rent out private facilities for profit? Capitalism could not grow out of such little ventures. They would, however, entice officials to think about running a capitalist business instead of managing a unit of the state.

When maneuvering among clientelist cliques and the pursuit of self-interest occupy officials, they neglect state planning and administration. Indeed, a socialist state plan requires not only effective administration; it needs political work. One problem of the five-year plans was that factories and other production units were tempted to deliver the planned quantity of output while they failed to meet required quality standards. Critics love to cite examples of unusable steel arriving at construction sites, department stores receiving unsalable shoddy goods, and so on.

Such things do happen. Political work is one remedy. Let delegations of workers and managers from the receiving firms gather at an assembly of the

producing firm's staff. "How are we supposed to build socialism with this stuff? ... What is the problem at your factory that you ship such things?"

Without a common society-wide goal, such political work wilts. In the latter years of the Brezhnev period, fulfillment of plan targets often fell short. Officials recognized economic problems, but the fixes were administrative reforms. The situation in particular sectors improved for awhile, but no more.

Growing privilege and fracturing socialist economy reinforced each other. The elite focused more on boosting their own lot, and the economic machine functioned even worse.

By the early 1980s, the capitalist mode of production would seem a logical step for many in the Soviet elite. To some of them it held out the opportunity to acquire wealth in a way that privileges within the state economy could not. The choice came down to further attempts to fix a decayed socialism versus a leap to capitalism. The goal of marching to communism had long since passed.

Of course, not all the Soviet elite had the stomach for a capitalist scramble. But they had no alternative to offer, and the projection for socialism was further decay. They were in no position to stop Gorbachev. He acted for the privileged elite. He turned to capitalism ("perestroika").

The second period, decayed socialism, ended in 1991. The state plan was tossed aside. The ambitious jumped into frenzied seizure (privatization) of the state's means of production. Production was now for the market and profit. By 1994, three out of five businessmen in Russia were former members of the nomenklatura.¹⁸

Despite the predominance of former Soviet elite among the new mid-level capitalists of Russia, Gorbachev and associates achieved much less than they hoped. They wanted to preserve the Soviet Union; it broke up. They wanted a vigorous industrial capitalism; production plummeted. They wanted a sophisticated bourgeois democracy like France or Germany; Russia got near-chaos with Yeltsin, then the authoritarian Putin.

Boris Yeltsin hounded Gorbachev off the stage. Yeltsin was a notorious drunk, willing to shell the Supreme Soviet building. He privatized the 15,000 state enterprises by selling them for peanuts to fast-moving hucksters and gangsters who became the original oligarchs, as well as former officials. The mainstay of the economy became the export of oil and gas, grain, and ores, not modernized industry.

Western communists' views of Soviet decayed socialism

Khrushchev delivered his blow to communism from the position of the highest leader of the Soviet Union – the first country of socialist revolution, the first country to raise itself from famine-ridden agriculture to industry without introducing the poverty and degradation of capitalism.

Confusion disrupted communist parties around the world. In the Western capitalist countries, many communists gave up, denounced all of communism, and turned to democratic socialism or outright capitalism.

Other communists stayed communist. But what was the Soviet Union now?

Some recognized Khrushchev's revisionism. Their tendency was to brand the Soviet Union a capitalist country, since it no longer practiced socialism, understood to be a march to communism. But a capitalist mode of production, populated by capitals each driving for the most profit it can grab, was not to be found.

Those who could not break with the Soviet Union argued that it was socialist. But if it was socialist, why the slackening progress, why the ugly privilege and corruption? Some communists let their loyalty to socialism become defense of *decayed* socialism.¹⁹ Typically, they compared the Soviet Union with Western capitalist countries, stressing in the latter the polarization of fabulous rich and desperate poor, the depressions and recessions, the barriers to health care. "If you think I'm overweight, look at him!" These persons evaded the fact that the Soviet Union was no longer on a march to communism.

In hindsight, analysis of the second period of Soviet socialism answers these questions. The analysis comes too long after the fact, but now we have it in hand to help us prevent a next time.

After the breakup of Soviet socialism in 1991, the capitalist ideologues of the West had a ready answer: communism is impossible; the modern world will be capitalist forever. Democratic socialists espouse a minor variation of this view: we can have a humanized capitalism with full employment and excellent social benefits. We call that socialism, since we have no vision of a society that replaces capitalism. Markets, profit-seeking, and “tolerable” inequalities of income are inevitable, and we must use government to keep them in hand.

One attempt at a communist explanation of the Soviet collapse documents “the development within socialism of a ‘second economy’ of private enterprise and with it a new and growing petty bourgeois stratum and a new level of Party corruption.”²⁰ However, say authors Keeran and Kenny, this problem could have been solved. They enthuse over a set of reforms to modernize planning and revive discipline among both officials and workers. “There is every reason to think that Andropov’s approach to reform would have worked.”²¹ But alas, Andropov died early, and after a few years the good Gorbachev turned into the bad Gorbachev:

“Gorbachev’s early policies resembled the leftwing Communist tradition represented in the main by Vladimir Lenin, Joseph Stalin, and Yuri Andropov, while his later policies resembled the rightwing Communist tradition represented in the main by Nicolai Bukharin and Nikita Khrushchev.”²²

“As bad as the problems were, they did not bring down socialism; Gorbachev did that, and his thinking increasingly reflected the interests of the second economy entrepreneurs.”²³

The tale of Andropov and Gorbachev is a great-man theory of history.

More important, the outlaw petty bourgeois stratum cannot bear the weight that this analysis requires of it. As we saw, much of the second economy *depended* on a decayed socialist economy. To this degree, the underground operators had no interest in shifting the Soviet Union to open capitalism.

Privilege grew among the ruling elite, who used their power to grab fruits of the state economy. Brezhnev with his stable of luxury Mercedes and Cadillacs, down the ladder to officials who ate at a special buffet, did not depend on petty bourgeois entrepreneurs and were not defined politically as their agents.

The analysis by Keeran and Kenny glides over the fact that a counter-revolution in 1956 from within the party launched the period of decayed socialism. Khrushchev was not a political representative of second-economy entrepreneurs. He rejected socialism as a series of communist projects. An array of like-minded Party executives and defense minister Georgii Zhukov were his supporters.

Both a cannon ball and a pig's foot, when dropped from a leaning tower in Pisa, fall to earth at the same rate of acceleration. This happens because of the gravitational force between the earth and each object, not because the cannonball interacts with the pig's foot. After years of privilege and corruption, the lure of open capitalism moved top Soviet officials. Whether underground entrepreneurs also yearned for open capitalism is irrelevant as well as dubious.

The second period in China

Just as Nikita Khrushchev tossed out hard-won Marxist-Leninist theory, so did Deng Xiaoping dismiss Marxist-Leninist philosophy. He did it in the open and also by his silence when it came to communist theory.

For those familiar with Marxism-Leninism, Deng attacked it when he twisted the saying, "seek truth from facts," and the Marxist maxim that practice is the sole criterion of truth. The aphorism is an old Chinese four-character idiom (*chengyu*) that first appeared in the Book of Han, *Shí shì qiū shì*.²⁴ Mao Zedong gave this advice often, especially to educated young people who flocked to Yanan in the 1930s and were trained to take the liberation struggle to villages.

Mao's "seek truth from facts" was materialist: you must gather facts and then seek truth. Truth is more than your heap of facts. You cannot go directly from the facts that *you* collect to a solution of your immediate problem, although that interpretation apparently accompanied the saying from ancient times. Truth comes in powerful general concepts and propositions. We distill truth by logically integrating our direct investigations with all the history we can survey. We distill it from comparison of different situations in order to see what is generally true versus what is true under narrow conditions.

Deng tossed out materialist philosophy. He lived and breathed pragmatism. When he repeated that practice is the sole criterion of truth, he meant that practice by him and his cohort shall now be the sole criterion, not the labor, struggle, and experimentation by all humanity past and present. For Deng, the recipe was: study a problem, figure out something that might work, and try it. Sooner or later you will find something that appears to work. You're done.

Deng's silence, too, was a signal of trouble to revolutionaries who knew communist theory. Deng wound down communist explanation of social developments and party decisions. To be sure, communist parties are prone to long, tedious, and formulaic statements. We all can benefit from concise, crystal clear, and stimulating explanations. But this was not the style of Deng and his capitalist-roaders. Their justifications were just crude or entirely absent.

Deng's pragmatic goal was industrial development. He refused to be confined by the polar opposition between capitalist industrialization (Japan and the U.S., for example) and socialist industrialization (the Soviet Union). Let's just industrialize as fast as we can.

All the knowledge of capitalist exploitation that Marx gave us from his deep study of economic history went out the window. If it helps, let China have hundreds of millions of proletarians who must sell their labor power to capitalists – private and state-owned firms all run for profit. Let capitalists drive workers as hard as they can. Let China have commodity markets enabling the capitalist circuit, M-C-M'. China will develop!

Forget materialist theory and the larger picture, just improvise steps from the socialist side of the river to the capitalist side. Bend and break socialist planning. Bring in toolboxes from bourgeois economics: Keynesian, Friedman-ite, econometric, monetarist.²⁵ That was Deng's pragmatism.

To be sure, Deng wanted a strong state run by leaders of a capitalist-dedicated Communist Party of China. We will return to this point.

The Deng-ists did not know exactly how to introduce a capitalist mode of production. Deng began the second period of socialism in China in 1977. The Deng-ists dismantled or weakened elements of socialism one after

another. They combined pragmatic steps toward capitalism with assurances that socialism remained in place. In this way the Deng camp spent the late 1970s and the 1980s turning elements of socialism into supports of capitalism:

- In 1977 the government restored the national entrance exam to college, the gaokao, which is like the Scholastic Aptitude Tests on steroids.²⁶ Families who could give their teenage child time to prepare, and who could perhaps hire a tutor, had the advantage, as did children of intellectuals suffused in verbal, mathematical, and cultural activities since birth. College graduates would become the privileged administrators, economists, and engineers that state-run capitalism would need.
- “During the 1980s, much of the existing cadre corps was replaced... The new regime systematically replaced poorly educated cadres, both revolutionary veterans and worker-peasant cadres promoted during the Mao era, with cadres who were, in Deng’s words, ‘younger, better educated, and better qualified professionally.’ ... Between 1982 and 1988, 1,630,000 cadres who had joined the Communist movement before 1949 retired; during the same period, another 3,120,000 cadres who had been recruited after 1949 also retired. Many of these cadres were reluctant to retire and only left as the result of an unrelenting party campaign, the explicit aim of which was to get rid of cadres who did not meet Deng’s requirements.”²⁷
- Deng ripped apart the people’s communes, primarily in the years 1981 to 1983. The commune had been a combined governmental, economic, and civil institution, an arrangement that solidified basic welfare and social services for all members. The local township government was now distinct from the commune. Collective labor and income based on it ended. Most work was now done by families each farming a plot of land contracted from the commune. Similarly, commune workshops were made into “town and village enterprises” (TVEs) operating on their own account – some ten million of them by 1985.²⁸

The family farms and rural companies were petty bourgeois economic units. Deng did not hasten consolidation into large capitalist farms. Hard manual labor plus generous doses of chemical fertilizer drove output up until grain production stumbled in 1985. “The first commercial deal signed immediately after the visit [by Nixon in 1972] was China’s order for thirteen of the world’s largest synthetic ammonia complexes for producing nitrogen-based chemical

fertilizer. China purchased additional plants in the 1970s, [and] developed its own capacity to build chemical fertilizer plants in the 1980s.”²⁹

When industrial capitalism got underway in the 1990s, concentrated along the coast in Guangdong, Shanghai, etc., tens of millions of people would migrate from the villages to assemble electronics in Foxconn and other sweatshops, build condo towers at construction sites, and deliver meals along city streets.

Factories and other state enterprises were eased into position for later conversion to outright capitalism. “Ota Sik, from Czechoslovakia, inspired a phased-in pricing strategy in the early 1980s, whereby China gave enterprises ever more control over setting prices.”³⁰

The Deng camp dominated the Communist Party, but some Party elders held onto an ideal of industrializing within a state plan. Chen Yun was the principal spokesperson of this view, no matter how much privilege and inequality of income he might be comfortable with. His attempts to tap the brake on Deng’s pragmatism failed.

Deng, like Khrushchev, confused people instead of presenting them a clear, bold capitalist project. When Hu Yaobang was dismissed as the Party secretary in January 1987, the Party declared with breath-taking hypocrisy that he was guilty of “advocating the capitalist road.”

The second period ends in capitalism

Unlike the abrupt introduction of the capitalist mode of production in Russia, the end of the second period in China spread out over several years, mainly from 1991 on. The capitalist-roaders did not want to tell the Chinese people that they were turning China into a capitalist country. To this day the Communist Party goes through rhetorical contortions to claim a “socialist” label and brand China’s capitalism as a “socialist market economy.”

In this respect, China differs from Russia. Yeltsin said in 1989, “Let’s not talk about communism. Communism was just an idea, just pie in the sky.”³¹ And V. Putin said, “The *existing* model of capitalism, which [is] the basis of social structure in the overwhelming majority of countries, has run its

course.”³² (emphasis added) Putin thus calls for a new model of ... capitalism.

Among the building blocks of China’s capitalism:

- By 1992 there was “a change in the way investment was financed (from bank loans paid back out of SOE profits rather than grants from the government budget).”³³ This measure went a long way to castrating the state plan. It remains in name but is no more than a list of guidelines without unified enforcement.
- In the same year, “the government completely freed up the prices of 600 industrial producer goods. By the end of 1992, the number of industrial goods and transport prices subject to state-set prices had fallen from 737 to 89.”³⁴
- The working class was turned into a proletariat, each worker left on his own to sell his labor power. “Urban state-owned and collective-owned manufacturing enterprises have lost most of their employed workers since the early 1990s ... Most of their former workers have been laid off, fired, subjected to early retirement, or retained by their enterprise after it was sold, was privatized, or became a joint Chinese-foreign company in the decade from 1992 to 2002.”³⁵
- Secure jobs turned into insecure employment. The percentage of informal-sector employment rose from one-third of one percent in 1990 to 3.5% in 1996. The percentage of self-employment went from four to ten percent in the same period. The unemployment rate rose from 3.3 percent to 6 percent.³⁶
- The “iron rice bowl” (capitalists’ derogatory term for socialist guaranteed benefits) was smashed. Manufacturing employment fell from 96 million in 1997 to 83 million in 1998. The collapse was *not* a one-year drop, but rather a belated statistical scramble that year to catch up with reality: “Starting in 1998, workers who had been laid off from active employment, but were still connected with their former employment unit, were no longer deemed employed and were thus excluded from the employment figures.”³⁷ Earlier, an “off-post” worker still had health care, retirement, and other social benefits paid for by the state firm. Once the bowl was smashed, her formal connection to the firm became meaningless.
- Foreign direct investment began in the mid-1980s but took off in the 1990s. Averaging US\$2.3 billion per year during 1984-89, it jumped to \$US28.3 billion in the 1990s.³⁸

State-owned enterprises in Chinese capitalism

The socialist state economy had consisted of people's communes and state enterprises. When China calls itself socialist today, some Western leftists swallow the claim. Politically, the only Marxism-Leninism you get from the Communist Party of China is a fig leaf of clumsy rhetoric.³⁹ In matters of economy, mistaken leftists believe that state-owned enterprises (SOEs) embody the alleged socialism. In reality, SOEs today are as capitalist as it gets.

The SOEs take on a variety of forms. Some of them are analogous to nationalized firms in Great Britain after World War Two, in France under DeGaulle, and in Japan during its rapid industrialization in the 1960s and 70s.

Many SOEs were privatized entirely. "During the mid-1990s and the mid-2000s, the state sold around two-thirds of SOEs and state assets to non-state owned firms."⁴⁰ The new owners were typically Party officials who had been managers in the SOE. They "bought" the firm on credit, paying the debt out of the profits of the enterprise.

The remaining SOEs became part of the overall capitalist economy. They were no longer run according to a state plan, because there is no such plan.⁴¹ SOEs are corporations; units of the state own all or most of the shares.

Various central government agencies own around a hundred large SOEs. Their industries range from petroleum to power grids, metal ores, telecommunications, shipping and more. One of them is China National Tobacco Corporation, which produces 46 percent of all cigarettes in the world, 2.5 trillion per year. It buys tobacco leaf from Argentina, Brazil, Kazakhstan, Malawi, Zimbabwe and Zambia.⁴² CNTC made \$214 billion profit in 2021.⁴³

There are also more than a hundred thousand SOEs that provinces, counties, and cities own themselves or in partnership with private capital. The SOE of one province may invade the market in another province, competing with its SOE in the same line of business.

Several state agencies may divide ownership of the shares of a “state-owned enterprise,” each agency pursuing its own parochial goal. Furthermore, “SOEs’ ownership structure has become more diversified, involving the participation of non-state (private and foreign) firms as majority or minority shareholders.”⁴⁴

For example, the U.S. financial titan Black Rock owned 6.1 percent of the shares of central SOE China Telecom.⁴⁵ Of course, investors buy shares for dividends and capital gains.

Many central SOEs are not total monopolies; until recently, two or three of them comprised an oligopoly in the telecommunications industry, for example. They also face competition from private corporations in the same industry, such as automobiles and steel.

In short, the SOEs are a variety of capital within the overall capitalist economy. They are all run to make a profit. Central SOEs retain most of their profits; they do not pay huge dividends to their state shareowner, with a few exceptions like the tobacco monopoly.⁴⁶ The state turns around and puts most of its dividend proceeds back into the SOEs; only a tiny percentage goes to government functions and social programs.

The government can push SOEs into occasional low-profit and even losing projects. For example, the telecoms are asked to build out Internet infrastructure in western China and rural areas. The scale of such projects never challenges the fundamental profit orientation of the SOE.

In the economy as a whole, “as of June 2018, [SOEs] accounted for 28 percent of China’s industrial assets.”⁴⁷ Conversely, “private firms have accounted for 60 percent of GDP ... and 80 percent of urban employment.”⁴⁸

Comparison of the second period in the Soviet Union and China

In both the Soviet Union and China, the leaders jumped off the communist road. Their counter-revolution was abrupt in 1956 and in 1977, but they did not announce the turn to capitalism. The forces that would push things from decayed socialism to capitalism needed one or two generations to do their work.

Why did this process go on for 35 years in the Soviet Union but take only 15 years in China?

One reason is the background of the agents of anti-socialism. Soon after 1917 the Soviet revolution thoroughly ousted from power the owners of the huge estates as well as the capitalists. They did not join the Communist Party, or if they did, they did not ascend to top positions.

Nor did engineers and professors with a bourgeois outlook become powerful. If they were willing to carry on skilled and useful work in the new Soviet Union as they had under the tsar, they were well paid. They enjoyed academic prestige and many of the same privileges as the nomenklatura. No doubt their life styles and world views seeped into the ranks of party and state officials.

In China by contrast, the children of landlords who had exercised local state power did join the Communist Party in the 1930s and 40s. (In some families, one son would join the Communist Party while another joined the Kuomintang, covering all bets.) They got no easy ride in Yenan, nor were they looking for one. They accepted the party program of liberation and democratic revolution, to be followed by socialism of some sort. They carried out dangerous work in the People's Liberation Army and in the villages, sharing the plain food and clothes.

The children of landlords and mandarins were, however, much more educated than most. Literacy was rare enough in old China, and people with higher education were extremely scarce. As late as 1949, "out of an adult population of nearly 400,000,000, there were less than 185,000 college graduates."⁴⁹ Mandarins recruited through the Confucian examination system had run the dynastic state for 2000 years.

The Communist Party welcomed landlord and educated youth. The party expected them to remold their outlook on life and society. It put them through exercises of self-criticism and assignments to solidify and test their commitment. Indeed, ten and twenty years after Liberation in 1949, many individuals of such background held true to communism, while plenty of Party members from poor and middle peasant background supported a turn to capitalism or to the decayed socialism of the Soviet Union.

However, a core of party members from landlord and intellectual families had it in their bones that a privileged elite would modernize China – and *they* were in this elite. If capitalist industrialization looked to be faster than socialist industrialization, if capitalist measures came more easily than communist projects, they favored a turn to capitalism, whether they thought of it as regulated capitalism, market socialism, or whatever.

This historical background did not affect the Soviet elite. Tsarist rule was “only” five hundred or so years old, its rule was much less sophisticated than that of the Confucian mandarin state, and few of its blood went into the communist ranks. Workers and peasants learned to run things in the course of socialist industrialization.

Another reason for the different second periods lay in the historical task at hand. After the Soviet Union achieved basic industrialization and defeated the Nazi invasion, no bold historical task was obvious to the Soviet communists, and they did not seek one. This situation is opposite to the one in China, where the revolution started from a lower level of productive development and a heavier history of imperialist domination. In China, basic prosperity and national strength through industrialization were urgent projects.

Prevent a second period of decayed socialism!

By the time the leaders of the party and state yanked the country off the communist road, it was too late to stop the turn to capitalism. The party rank and file, like the working class as a whole, did not see a need to rise up. Some party members thought Khrushchev had to be tossed out. When word of the secret speech came to Georgia, the land of Stalin’s youth, riots erupted.⁵⁰ But most workers were apparently confident that the usual procedures would correct things. In China the Cultural Revolution failed to keep the country on the path to communism. Deng Xiaoping and like-minded officials proceeded to industrialize the country for the benefit of China and themselves.

The obvious question is, how did persons like Khrushchev and Deng rise to power? They were energetic. During long careers in the party and state, they were assigned big projects and completed them no matter what, demonstrating strong administrative capability. But they never showed that

they understood communism. Nonetheless, the Party let them become *political* leaders, deciding what the big tasks are.

The explanation for this turn of history in the first two socialist countries must lie in the earlier years of socialism. This explanation remains to be done. However, what we know about the material forces that ate away at socialism can help the next revolution. No recipe is a guarantee, but the Soviet and Chinese experiences suggest measures to consider.

- Since socialism is a series of communist projects, let us put that concept in the Party program *and* make it part of everyone's understanding of the society she lives in.

- Let us knit material gains in production tightly with communization of their distribution. When capitalist economies were in their prime, individual incomes rose – not in unison but more and more unequally. When socialism has more, let us raise the lowest incomes faster than the middle incomes, and hold higher incomes almost constant.

- Let us continually ask what we can distribute on the communist principle of each according to her need. That is easy to answer with health care, for instance. It is the rare person who craves more and more visits to the doctor just to have them. Instead, when we have the resources to replace every hip that needs to be replaced, we do it without individual charge. What about smartphones? At some point we might define an adequate level of quality and capability and give everyone such a phone. Those who want a more exotic model could buy one at a steep price. The more that individual consumption is communized, the less important money income becomes.

- Let us communize social relations step by step. The most important of these are authority relations in firms and government and the transformation of occupational hierarchy into all-round development of the talents of every worker. The Communist Party of Greece put it well in its 2008 Theses when it set the goal of “homogenization of the working class (with the widening of the abilities and possibilities for multi-specialization, for alternation in the technical division of labour), workers' control and participation in the organization of labour, so that it would begin to develop into communist self-administration.”⁵¹

- Stricter rules are needed for officers of the state. Let us separate power and privilege: if you have the former, you cannot have the latter. Long before everyone's income lies within a narrow range, those who administer state and economic organizations should be limited to the average worker's income. Sure, comrade official, you work hard and you have more responsibility. But how does it give you relief if society grants you a large income, spacious housing and fine furniture, tailored wool suits, and a fancy stereo system or a classy set of golf clubs? If you demand such a balance between your duties and these things, you are not a leader on our march to communism.
- To the same end, let us work out accounting that exposes privileged personal consumption at the expense of the state or the firm: leisure-padded travel, expensive meals, staff doing your individual chores, and so on.

Working-class democracy: the Cultural Revolution

Probably most difficult, let us widen working-class democracy step by step. We are not anarchists. Our meetings do not work on 100% consensus, which means endless discussion until people are worn down. On the other hand, it is tempting to operate the state, confronted as it is by class enemies, on the model of the feudal and capitalist military: orders flow down the chain of command, period.

The first great attempt at using working-class democracy to block decayed socialism was the Cultural Revolution in China. It compares to the Paris Commune in several respects: it was glorious, it was defeated, many people suffered horribly, and it has profound lessons.

In some villages, factories, and offices, the working people rose up “to challenge party officials, promoted a collective work ethic that required cadre participation in manual labor and provided for local initiative and the participation of villagers in economic decision making.” These changes were *not* made at the cost of output; on the contrary, communist norms of working together accelerated economic development.⁵²

Such locales gave the Cultural Revolution proof of concept. However, in other places, and at the middle and upper reaches of the state in particular, it appears that the Cultural Revolution did not unite ideological struggle

closely with changes in the lives of the working people. In 1957 Mao Zedong had said:

“It will take a long period to decide the issue in the ideological struggle between socialism and capitalism in our country. The reason is that the influence of the bourgeoisie and of the intellectuals who come from the old society will remain in our country for a long time to come, and so will their class ideology. If this is not sufficiently understood, or is not understood at all, the gravest mistakes will be made and the necessity of waging the struggle in the ideological field will be ignored.”⁵³

Eight years later the May 16, 1966 Circular, which launched the most intense phase of the Cultural Revolution, repeated a single-minded focus on ideological struggle:

“Our country is now in an upsurge of the great proletarian Cultural Revolution which is pounding at all the decadent ideological and cultural positions still held by the bourgeoisie and the remnants of feudalism.”⁵⁴

This is true but incomplete. Struggle over capitalist versus working-class ideas is best when it fuses theory and practice. The theoretical side is conscious understanding of class relations. The practical side is how they operate in the village, the work unit, etc. The struggle is not over ideology by itself; it is about how we run things, overall and where I live and work.

Guidance for the Cultural Revolution supported this unity. Too often, though, campaigns and incidents diverged in opposite directions. On one hand, how many people had a vital interest in a class criticism of Beethoven? On the other hand, struggle within shops and offices and sometimes a whole city soured into unprincipled gang fights, cloaked as raising my red flag against your red flag.

Maybe it was too late for the Cultural Revolution to succeed. Adherents of decayed socialism and capitalism had already taken over administration of the Party and the government. They had elevated Mao Zedong to ceremonial height while they fenced him off from governance. Shackled within the Party, Mao and his remaining allies in power aroused masses of students and workers to overthrow officials bent on capitalism. But then the job of taking socialism toward communism faltered. Many intellectuals hated the Cultural Revolution from the beginning because they could not separate culture from

elitist attitudes. By the end of the Cultural Revolution, large sections of the working people were happy that it was over.

There is little calm in the world today. Crises tumble in one after another. New buds, like the growing interest in socialism, open; new dangers, like the spread of anti-rational mobs, threaten. We cannot escape by elections, by attempts to humanize capitalism. We can only get out of capitalist hell by revolution under the banner of no rich and no poor, by taking the socialist road to communism.

Charles Andrews is the author of *The Hollow Colossus*.

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- ⁴ Mervyn Matthews, *Privilege in the Soviet Union: A Study of Elite Life-Styles under Communism*, London, George Allen & Unwin, 1978, p. 38. The author accepts the anti-Stalin paradigm but takes care to specify his data. It is easy to take them without accepting his bias.
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- ⁶ Matthews, p. 40.
- ⁷ Matthews, p. 41.
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- ⁹ Corliss Anne Tacosa, "Who is the Soviet politician?" (1978). *Dissertations, Theses, and Masters Projects*. William & Mary. Paper 1539625028 at <https://dx.doi.org/doi:10.21220/s2-qc0g-t364>, pp. 117-19f.
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¹¹ Tacosa, p. 124f.

¹² *The Diary of Anatoly Chernyaev, 1975*, p. 81f. From 1972 to 1985 Chernyaev was deputy director of the International Department of the Central Committee of the CPSU.

¹³ *The Diary of Anatoly Chernyaev, 1979*, p. 22.

¹⁴ *The Diary of Anatoly Chernyaev, 1980*, p. 30.

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