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## State Capitalism versus Communism: What Happened in the USSR and the PRC?

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### Abstract

Since 1917 analysts have debated what kind of economic system existed in the USSR and the PRC. They mostly juxtaposed 'socialism' there to 'capitalism' in Western Europe and the USA. The two sides were defined chiefly in terms of private versus state property and markets versus planning. We challenge this debate by means of Marx's focus on the organization of surplus labor. That is, we distinguish capitalism, socialism, and communism according to how these systems differently organize the surplus. They exhibit different ways of producing, appropriating, and distributing the surpluses generated in production. Not only does this approach yield a new and different analysis of the similarities between capitalism and socialism, it also conceives communism as more radically different from both of them than other approaches do. Finally, we indicate some current political implications of our approach and its conclusions.

### Keywords

China, class analysis, communism, state capitalism, USSR

### Communism, Capitalism and Feudalism: Private versus State Forms

A widespread conviction holds that one of the most extraordinary events of the 20th century was the establishment of communism first in Russia and then China. Its results included a protracted struggle between contending capitalist and communist worlds. While sometimes limited to ideological and rhetorical modes, that struggle also erupted in dangerous skirmishes in Berlin, sharp and bloody conflicts in Korea and Southeast

Asia, and the threat of nuclear holocaust in the Cuban crisis. After so much sustained tension and conflict, the abrupt end of communism towards the close of the century was perhaps as unexpected as was communism's beginning near the century's start.

We disagree with this conventional understanding of the last century's tensions and conflicts between nations aligned in the contending capitalist and communist blocs. We find that the struggle did not pit capitalism against communism. This conclusion flows from the fact that communism – if understood as a distinct, non-capitalist class structure – was never a significant, nor a sustained part of the history of any of the nations conventionally labeled communist. Using the USSR and PRC as exemplars, we will argue below that those nations actually displayed capitalist and feudal, not communist, class structures.

We do not doubt the sincere Marxist consciousness and anti-capitalist commitment of the revolutionaries who inaugurated the USSR and PRC. However, notwithstanding their battles to establish and defend socialism and to move toward communism, they could not and did not install communist class structures as the prevailing social organization of production in either country. Instead, they established particular *state* forms of capitalism and *state* forms of feudalism as means to improve their nations' economic and military strength and their citizens' standards of living. Thus, by the second half of the 20th century, the dominant conflicts occurred among:

- 1) mostly private capitalisms (the US, Western Europe, Japan, etc.),
- 2) a state capitalism in the USSR and Eastern Europe, and
- 3) first a state feudalism and then a state capitalism in the PRC.

We begin with two sets of definitions basic to our argument. The first set concerns what we mean by class structures, while the second concerns the difference between a private and a state form of any class structure. By class structures, we mean the specific, alternative ways in which societies can organize the production, appropriation, and distribution of surplus. Here we borrow from Marx's carefully delineated class analysis (see Resnick and Wolff, 1987: chapters 3–5). Thus a feudal class structure is as follows:

The feudal fundamental class process is defined as the production and appropriation of surplus on the basis of socially constituted ties of obligation of the direct producer to service a specific feudal appropriator qua lord. Feudal obligation presents the direct producer with a socially determined limitation on his or her ability to perform labor: to exist in the normal sphere of social life, he/she must perform surplus labor for the lord. The hegemony of the lord over the sphere of work life gives this social entity the power to appropriate this laborer's surplus labor or the fruits thereof. In essence, it is a rent the laborer must pay to exist and work as a normal human being. In return the lord grants the laborer access to social necessities. This relationship between feudal lord and feudal direct producer may be described as *feudal reciprocity*. (Gabriel, 2006: 10–11)

A capitalist class structure is similar to the feudal in typically displaying a class of producers (wage laborers) who deliver a surplus (usually labeled 'profit') to non-producers

(employers of wage laborers in commodity producing enterprises).<sup>1</sup> Parallel to feudal lords, the capitalists receive the surplus from their productive laborers and then distribute it to secure the conditions of existence of a capitalist social organization of the surplus (one portion to the state for operating a legal system supportive of capitalism, another portion to managers to make sure workers are productive, still another to owners of the physical means of production to gain access to those means, and so on).

The capitalist differs from the feudal class structure in the complexes of politics, culture, and economics that pressure and persuade wage workers regularly to produce a surplus for their employers. Instead of feudalism's personal bonds of religiously sanctioned obligation and loyalties, what typically motivate wage-workers are the impersonal conditions and constraints of markets. Their products and their labor power itself have become commodities traded in markets. Earning their livelihoods requires first selling their labor power and then producing and delivering a surplus to their employers. Where feudal surplus producers are usually personally bound or tied to their work places and to the individual receivers of their surpluses, surplus producers are 'free' to sell their labor power in the market to any employer and to move from one to another. The distinction between bound and free in this sense will operate as a short-hand to differentiate feudal from capitalist class structures in this article.

In contrast to both feudal and capitalist class structures, the communist represents a more easily differentiated organization of the production, appropriation, and distribution of the surplus. In the communist class structure, the individuals who produce the surplus are identical to those who appropriate and distribute it. As Marx once said: 'they [the workers] *themselves* appropriate this surplus either of the product or the labor' (Marx, 1971: 255, Marx's emphasis); see also Resnick and Wolff (2002: chapter 1) for a reading and critical evaluation of the Marxian and utopian literatures on communism, and Resnick and Wolff (1988) for the difference between a communist class structure and communism as 'classlessness'. The collective of workers appropriates its own surplus and then distributes portions of it to other people for providing the conditions of existence of such a communist arrangement of production (for example, to a political party that promotes the virtues of communism, to a state apparatus that protects it, to managers and technicians who advance its technology and productivity, and so on). Quite parallel to what occurs in any class arrangement, these communist receivers of distributed labor may secure various forms of these conditions from religious to secular belief systems, democratic to despotic rules, low to high technology, and small to large producing units. Such different forms point to the immense possible variations of communism.<sup>2</sup>

A *private* form of any class structure is one where the individuals occupying class positions – and especially the positions of appropriators/distributors of the surplus – are *not* officials, functionaries, or employees of any state apparatus. In contrast, a *state* form is one where individuals occupy class positions in their capacity as state officials or their appointees. The histories of both capitalist and feudal class structures exhibit mixtures of private and state forms. In most conventionally designated 'capitalist countries,' private capitalist enterprises prevailed whose producers and receivers of the surplus held no position within any state apparatus. Yet state capitalist enterprises usually also existed in those

countries: often, state officials or their appointees received the surpluses generated by wage laborers within commodity producing enterprises. In the USA, for example, state capitalist class structures have existed, among other places, in the Post Office, the Tennessee Valley Authority, municipally owned utilities, state universities, public radio and television, and Amtrak.

Conversely, what prevailed in the USSR were state capitalist enterprises alongside a marginal social role for private capitalist enterprises. Soviet industry was mostly organized as state-owned enterprises where state officials received the surpluses produced by wage laborers. In agriculture, significant numbers of private capitalist enterprises were sometimes allowed; in the USSR's 'second or underground economy' private capitalists also existed, albeit illegally.

In societies where feudal class structures prevailed (e.g. medieval Europe) there were likewise mixtures of 'private' and 'state' feudal enterprises. Many feudal lords appropriated the surpluses produced by their serfs on their 'private' manors. Such feudal lords and serfs held no position in any state apparatus. When nations and national states emerged in feudal Europe, feudal kings appropriated their serfs' surpluses on state feudal manors. Indeed, the Russian Czars received the surplus from serfs working state lands alongside the private feudal class structures on the private manors of the Russian feudal lords.

### **State capitalism: preliminary considerations**

Across the 20th century several strategies arose to deal with periodic crises that afflicted private capitalism. Those strategies ranged from limited episodic state interventions into the economy through various more or less Keynesian counter-cyclical fiscal and monetary policies on to full state capitalism (through state take-over of private capitalist enterprises). For complex historical reasons, some or all of these strategies drew the label 'socialist'. However, none of the 20th century's state interventions achieved a change in the class, i.e. surplus, organization of production to communism. No society has yet reorganized most or even many of its enterprises such that the productive laborers within them are also the collective appropriators and distributors of the surpluses they produce.

What the Soviet revolution did achieve was a transition from the prevalence of private capitalism to that of state capitalism instead. This transition was associated with particular redistributions of wealth and power and particular cultural shifts (e.g. hostility to organized religion). Thus, the events of 1917 and after in the USSR challenged and frightened many within societies where private capitalist class structures still prevailed. They reacted by criticizing the USSR as the actualization of 'communism', that evil 'other' of capitalism that they had long demonized as a godless, dictatorial, and unworkable dystopia. Since the critics had no conception of the distinction between private and state forms of capitalism, they reasoned instead in terms of an epochal contest between capitalism (simply equated definitionally to private enterprise) and communism.

In the years after 1917, the survival and then economic growth of the USSR greatly expanded its prestige and influence among advocates of socialism and communism. After

Stalin's consolidation of power in the late 1920s, Soviet society was officially described as an actually existing socialism whose goal was an eventual transition to communism (the latter defined as a kind of egalitarianism which took 'from each according to his ability' and distributed output 'to each according to his need'). The USSR after 1928 thus defined itself as socialism and socialism as the opposite of capitalism. Celebrators and critics alike ignored or excluded the concept of state versus private capitalisms in relation to what existed in the USSR. Thus, nearly everyone viewed the global contest of the 20th century as capitalism versus socialism.

Two related patterns of Cold War debates warrant attention. First, anti-Soviet literature referred mostly to 'communism' as what existed in the USSR, Eastern Europe, China, Cuba and so forth. In contrast, pro-Soviet literature mostly saw 'socialism' as what existed and communism as a future goal. Cold War debates thus often resembled dialogues of the deaf talking past one another. Secondly, serious disagreements among the critics of capitalism entailed competing claims to the term 'socialism' and thus a proliferation of different meanings. For example, critics of both private capitalism and the USSR's socialism developed terms like 'democratic socialist' and 'social democrat' to define the qualities and limits of state intervention (e.g. Sweden, Germany and France after World War Two) that they preferred in their definitions of 'socialism'. In this article, we use 'state capitalism' to refer only to societies where the state form of capitalism prevails, where state officials appropriate most surpluses. We avoid use of the term socialism not only because of its multiple and clashing usages, but also because they all distract attention from the organization of the surplus which is our focus in (as well as our definition of) class analysis.

One final conceptual problem needs a brief discussion to clear the way for our analysis of state capitalism: the difference between power analyses of society and class analyses. Most discussions of the USSR, by its friends and its foes, tend to collapse class and power into virtual synonyms. Class becomes a matter of power (rulers versus ruled) and so class analysis becomes the analysis of who rules whom, how, and with what consequences. In contrast, we distinguish power processes – how authority and control are distributed and wielded in society – from class processes – how surplus is produced and distributed. Of course, power and class processes are interdependent: who has power is affected by who gets surplus and so on. For us, their interdependence is no warrant for conflating them any more than the interdependence of culture with both class and power entails losing the specific difference of cultural from political and class processes.

Lenin seemed to recognize the difference between class and power processes. For example, not long after the 1917 Soviet revolution, he admitted that the state's control of production and distribution (and hence the surplus) was a 'state capitalism' but, he argued, it was a step toward communism because state power was in the hands of workers (organized in the Communist Party) committed to using their power to that end (Lenin, 1965: 349). Lenin thus deployed a complex analysis which related but also kept distinct power and class processes. Very few of Lenin's critics or followers followed him in this kind of analysis. Instead, most collapsed power and class together, usually in analyses that focused mostly on power as if it subsumed class. Thus, Cold War debates raged

over who *really* wielded power in the USSR. Its critics depicted the USSR as a society in which an elite wielded dictatorial power and then argued either (1) that it was therefore not socialist, or (2) that socialism was inherently a dictatorial system as proved by the USSR. Similarly, many socialist critics of the USSR focused on its social distribution of power to argue that Soviet socialism, because of the power concentrated in the Party and the state bureaucracy, was a distorted and/or incomplete kind of socialism whose passage toward communism was thereby blocked.

Trotsky and his followers criticized the USSR's concentration of power in its bureaucracy (state and party), yet they hesitated to label it state capitalist because of the successful collectivization of industrial capital and establishment of state planning (Trotsky, 1972: 245–9). Debate turned on which of two tendencies was stronger: a tendency toward capitalism arising from concentrated power in the hands of state bureaucrats versus a tendency toward communism arising from collective power over capital and distribution. For Trotsky and some of his followers the Soviet resolution of the two tendencies produced at best a society 'halfway between capitalism and socialism' (Trotsky, 1972: 255) – often designated by ambivalent labels such as 'statism' or 'state socialism'. For the few critics of the USSR who made use of the term 'state capitalism', they clearly meant it to designate an undemocratic distribution of power and not any particular social organization of the surplus, a particular 'class structure' in our terms (Resnick and Wolff, 2002: chapter 4).

### State Capitalism: Basic Analysis

To analyze state capitalism in the USSR, our class-focused approach asks first who produced and who received and distributed the surplus. Our second basic question asks how the USSR's specific class structure influenced and interacted with its economic, political (i.e. power) and cultural processes. The first step in our answer – developed further below – holds that industrial workers in the USSR produced a surplus for others, namely state officials in the Council of Ministers (COM), who received and distributed that surplus. The second step must explain why those workers within state industrial enterprises performed surplus labor and delivered its fruits to the COM, especially in a society suffused with denunciations of capitalism. Why did they accept working within a capitalist class structure?

The answer to this second question concerns all the non-class processes (political, cultural, and economic) that literally influenced, shaped, and pushed them into doing so. Marx's *Capital*, particularly volume 1 (1977), is filled with reasons explaining why workers accepted the class position of surplus producers for their employers within private capitalist enterprises. Marx there depicts the causal – literally the constitutive – force of power, culture, and other economic processes in making workers produce surpluses for their employers. Workers' class behavior in private capitalism depends on the existence of all those non-class processes.

In a parallel way, workers will produce surplus for state capitalists if and when political, cultural, and economic processes pressure and persuade them to do so. Soon after the

1917 Soviet revolution, a small group of officials in a state agency (Vesenkha) reorganized as the Council of Ministers (COM) and became in fact the receivers and distributors of the surpluses that workers produced in state industrial enterprises. The COM functioned as state capitalists because the economic, political, and cultural processes of the early USSR situated and legitimated them in that class position. Those processes included the passage of specific Soviet laws, their execution by the government, and their adjudication by Soviet courts; the design and dissemination of officially approved ideologies; the activities of the communist party; the planning of the economy by an economic bureaucracy; the design and implementation of school curricula; and so on. Together they placed the COM in the actual social position of first receiver of the surpluses produced in Soviet industrial enterprises. Those enterprises were owned by the Soviet state, the productive workers in them were paid wages for their labor, and the appropriators of the surplus produced by those workers were the state officials appointed to the COM. It was the state capitalist counterpart of a private capitalist board of directors. Sovietologists recognized this parallel, albeit without class analysis, in depicting the USSR as an economy that functioned as if it were one giant industrial combine (Gregory; 1990: 26; Nove, 1989: viii, 77).

Official Soviet understandings of socialism and communism worked, ironically, to render a state capitalism acceptable to the surplus-producing workers. The USSR was depicted as having achieved socialism because it had collectivized the ownership of means of production (by dispossessing the former private owners), made the state – as the workers' representative – the owner and operator of productive enterprises, and because the state's central planning replaced markets. Workers' wages were said to be their fair share of the collective output. Workers contributed to the building of 'their' socialism by enabling rapid capital accumulation, industrialization, and a military capable of protecting the USSR from hostile 'capitalist' nations. These conceptions of Soviet socialism, promoted by the state and party in schools, factories, and the media, persuaded workers to produce surpluses for the COM. Workers therefore did not conceive of themselves and the COM as producers and receivers, respectively, of the surplus. They did not, with some exceptions, see themselves locked into that antagonistic relation Marx called 'capitalist exploitation'.

Rather, they were partners (with their managers, state officials, Party officials, and others) in a worker-controlled (i.e. socialist) economic system serving the entire people. In this opinion, Soviet workers rather resembled their counterparts in private capitalisms. In both state and private capitalism, different ideologies nonetheless shared an insistence on *not* conceiving workers and capitalists as surplus producers (exploited) and surplus receivers (exploiter). They shared a concept of production in which there is no surplus since all contributors to output get back a share equal to their contribution: production and distribution as sites where justice reigns.

The wage labor system of the Soviet economy also reflected its culture and politics. The COM functioned as the legal personification of collectively owned means of industrial production deployed within state industrial enterprises. Through its subordinated enterprise managers, the COM hired the workers, equipped them with collectively owned means of production (tools, equipment, and raw materials), and received the



industrial surpluses. The COM then distributed those surpluses. Of course, the power to influence the size of the surplus and what portions were distributed to which others was shared by various social groups (Party leaders, state bureaucrats, trade unions, and so on). While that shared power was more or less continuously contested among those groups, the class positions of industrial workers (as surplus producers) and the COM (as its receivers) were not. Concepts of class and surplus had been successfully banished from the consciousness of most Soviet citizens in part because they had been expunged totally from officially sanctioned discourse.

In Soviet state capitalism, the COM employed, in addition to productive workers in its factories, a vast *central* managerial bureaucracy (Gosplan). Like its managerial counterparts in private capitalist corporations, this central management was responsible for supervision, record-keeping, and so on for the state capitalist enterprises. For example, using a kind of labor theory of value, Gosplan assigned values to inputs (labor power and means of production) and outputs. Gosplan then calculated the total difference between inputs and outputs (at their assigned values) to arrive at the surplus value received by the COM and thus available for it to distribute (to the state, the party, for capital accumulation, etc.). The COM then distributed the surplus (in portions and to recipients that were both subject to the varying powers of the Party, state bureaucracy, trade unions, and so on). The official goal was to reproduce and expand Soviet state capitalism. The COM also employed and depended on a huge *decentralized* managerial bureaucracy located within state enterprises at local and regional levels. These managers supervised and disciplined the USSR's ever-expanding industrial work force. They pressured and persuaded workers to raise the productivity and intensity of their labor so as to maximize surpluses delivered to the COM. Because both centralized and decentralized managerial activities were deemed indispensable to the reproduction and expansion of Soviet state enterprises, the COM distributed significant portions of the surpluses to managers as their salaries and managerial budgets.

The COM distributed other portions of the surpluses to political leaders in the state and the party, educators in the schools and universities, military and police apparatuses, and so forth. Like the managers, these groups were directed to use the surplus shares distributed to them by the COM to maintain their activities in providing the cultural, political and economic conditions for a growing state capitalist industry. These activities included, among others, the administration of state-managed markets, the assignment of values to resources and products, the allocation of resources and products to enterprises and consumers, the social dissemination of officially sanctioned theories, and the operation of the legislative and legal systems. A particularly important distribution of the surplus by the COM went to provide free or subsidized housing, education, medical care, transportation, etc.: this collective consumption program proved crucial to the workers' sense that the Soviet system was a genuine 'workers' society' or 'socialism.'

In Soviet agriculture things were different. Soon after the 1917 revolution and throughout the 1920s a so-called 'ancient class structure' prevailed – farms where self-employed Soviet farmers produced and appropriated their own individual surpluses (Gabriel, 1990). Under Stalin's forced collectivization in the late 1920s and into the 1930s, these ancient

farmers were replaced by collective farms whose class structures conformed to what we would define as communist: the collectivity of farmers who produced also appropriated and distributed the surpluses.<sup>3</sup> Then in reacting to the recurrent crises arising in these newly established communist farms, Stalin sanctioned the reintroduction of the very ancient class structure he had effectively destroyed under collectivization. Operating as private household plots alongside and to a degree in competition with communist farming, the ancient class structure prospered, although various state restrictions continued to constrain and frustrate its functioning. Under Stalin, state capitalism also extended to agriculture in the form of newly established state capitalist farms. There, and very much unlike the different class situation in ancient-communist agriculture, the COM appropriated the surpluses produced by state farmers.

### **A Brief History of Soviet State Capitalism<sup>4</sup>**

From its beginnings, Soviet state capitalism had a basic problem. It could not generate sufficient surpluses to fund all the distributions needed for it to survive and grow. The inherited backwardness of Russia; the destructiveness of World War One, the revolution, the civil war and then World War Two; the enmity of private capitalist nations; and the demands of Soviet citizens for rising living standards required more surplus for distribution than state capitalist enterprises could generate. Soviet leaders responded to this basic problem by committing the surpluses received by the COM first and foremost to expanding industrial capacity thereby to generate rising surpluses over time (Resnick and Wolff, 2002: chapters 8–10). The prioritization of industrial capital accumulation left relatively little surplus available for all the other needed distributions of the surplus. Indeed, not only was little surplus invested in Soviet agriculture, but planners manipulated the ratio of industrial to agricultural output prices to siphon wealth from agriculture. In effect, industrial surpluses went mostly to industrial expansion while agricultural surpluses as well were diverted to the same purpose.<sup>5</sup> A relatively stagnant agriculture coupled with an industry bent more on its own expansion than on producing consumer goods meant that living standards rose slowly and sometimes not at all. What surpluses did not go for industrial expansion went mostly to expand the Soviet military and to state bureaucratic and communist party apparatuses. The latter were increasingly necessary to control a fast-rising population of industrial workers whose living standards were severely constricted.

Remarkably, a program of carefully nurtured revolutionary zeal and workers' self-sacrifice coupled with Stalinist controls succeeded in enabling rapid industrial growth despite low living standards and spreading social controls. 'Building socialism' – as this program was officially labeled – became an effective slogan for the recovery from world war, revolution, and civil war, through the traumatic collectivization of agriculture in the 1930s, the cataclysm of World War Two, and then the Cold War. But by the 1970s, the old slogans and program no longer sufficed to contain the contradictions besetting the production and distribution of state capitalist surpluses.

Long deferred mass demands for rising living standards and freedom from harsh social controls, made all the more glaring in the light of the squashed 1968 reform movements, particularly in *Czechoslovakia*, could no longer be contained. Meanwhile, the arms race required spiraling military outlays. Soviet industrial workers in state capitalism rejected and began to openly struggle against repetitions of the classic appeals for more work, more sacrifice, and higher productivity (i.e. rising surpluses); the old slogans fell on deaf ears. Soviet agriculture could not be further squeezed. Farmers resisted by reallocating effort from state-constrained communist collective farming to more profitable individual ancient plots. In our class terms, Soviet state capitalism's contradictions coalesced into a full blown crisis: the increasingly open resistance of industrial workers and communist farmers constrained the required revenues, in the form of increased state capitalist appropriated industrial surplus and siphoned agricultural wealth, necessary to sustain Soviet state capitalism. At the same time, it seemed impossible to reduce expenditures supporting that state capitalism without also jeopardizing if not rejecting what the COM (and most others) had long understood to be the industrial-political-military program of 'building socialism.' Without more revenues (surpluses and agricultural wealth) to distribute to secure the conditions of Soviet state capitalism's growth and without any way to reduce the demands on those revenues, the slowdown that occurred after the mid-1970s deepened in the 1980s, and eventually led to a social collapse of Soviet state capitalism (and the USSR as a political unit) at the decade's end.

In a further irony, because Soviet leaders from Stalin forward had declared their system to be 'socialism en route to communism', the crisis and collapse of their economy was conceived not as a crisis of a state form of capitalism but instead as the failure of socialism. The vast majority of Soviet people and their leaders thus seemed unable to imagine any other solution than a return to private capitalism. No other option seemed available. The shift back to private from state capitalism was thus nearly universally viewed instead as a transition from socialism to capitalism.

### **Chinese State Feudalism**

The victory of the Communist Party of China (CPC) and its People's Liberation Army over the forces of the Nationalist Party enabled greater political than economic changes. Upon taking political power, the CPC inherited an economy that included both private and state capitalism in industry as well as private feudalism in the countryside.

The Nationalist Party and government had long operated a vast network of state capitalist enterprises that replicated many aspects of Soviet state capitalism (the Nationalists also maintained close ties with the USSR diplomatically). However, the Nationalists diverged from the USSR in allowing a considerable private industrial sector in which leaders of the Nationalist party and their families were prominent as private capitalists. The Nationalists also differed from the USSR in allowing private feudal class structures to continue to flourish in the Chinese countryside.

Once in power, the CPC nationalized the many industrial enterprises that had been controlled by Nationalist Party leaders or their families. Thus part of Chinese private

capitalism was converted into state capitalism. At the same time the CPC abolished the private feudal class structures in agriculture. In their place, official policy established the ancient class structure there, i.e. individual private plots.

In the late 1950s, the CPC organized dramatic transformations both in industry and agriculture. In the latter, ancientism (individual self-employment) disappeared in the creation of what were then called ‘communes’ but which we will show to have been a kind of state feudalism. In industry, the CPC established a new kind of state run enterprise (SRE) to replace both private and state capitalism; we will show these SREs also to have been state feudal class structures. The CPC made these transformations to capture more surpluses needed for capital accumulation, military expansion, and the goal of national self-sufficiency. China’s relationship with the USSR had become severely strained by then and the USA was deemed a major threat.

Like the Soviet COM, the State Council was the specific body within the Chinese state that occupied the class position of receiver of the surpluses produced and delivered to it by both rural workers in the communes and urban workers in the SREs. Unlike the Soviet case, from 1958 until the reform era, workers in China were not ‘free’ in the sense of connecting to their employers by means of impersonal wage contracts. Instead, they were bound to their work sites by a complex of legal, political, and ideological structures and obligations. As explained below, their direct personal subordination to the State Council as workers constrained to produce and deliver surpluses to it renders the class structures of the communes and SREs state feudal rather than state capitalist.

Starting in 1958, the CPC established this bondage of direct producers by means of the *hukou* and *danwei* systems (detailed in Gabriel, 2006). The former created a legal barrier to movement within the society for direct producers similar to the South African passbook system during apartheid (Alexander and Chan, 2004). The *hukou* system denied freedom of movement for rural producers such that ‘the strict residential registration system coupled with a strict rationing system in an environment of scarcity made it impossible for peasants to make a living in areas other than their own registered residential area’ (Chen, 1999: 107). Rural producers were effectively bound to state lands resulting in an exploitative feudal class relationship whereby ‘peasants were forced to sacrifice their own interests to support industry and urban residents ... forced to sell goods and products to the state at discount prices ... to submit to a set of exchanges that built relative prosperity in the cities while confining peasants to the penurious countryside’ (Chen, 1999: 107–8).

The *danwei* system instituted in the SREs supported a feudal class structure by its direct shaping and controlling of workers’ lives on the job and in their homes and family lives. The *danwei* system is the name given to a complex institutional relationship that existed between workers and the urban state run enterprises. In this relationship, labor was obligatory and workers were permanently employed. Furthermore, they and their families were provided the entire array of subsistence goods, including housing, medical care, education, and subsidized food and clothing in exchange for worker loyalty and the performance of surplus labor (Gabriel, 2006: 45–9).

Why did Chinese rural and urban direct producers accept a feudal class structure in which to produce surpluses and deliver them to the State Council? Why did they accept the *hukou* and *danwei* systems? A particular set of non-class processes (political, cultural, and economic) influenced and pushed Chinese direct producers into those acceptances. Tang and Parish (2000) argue that the Chinese party-state entered into a 'socialist' social contract with its citizenry that directly organized nearly every aspect of their personal lives. The state's social welfare programs intertwined with its social control programs to demand and enforce a direct personal relation of obligation on the part of workers to produce surpluses in the SREs. Rather than impersonally selling their labor power to an SRE in exchange for a wage, Chinese producers accepted the condition of being bound to their jobs as part of a densely intertwined economic, political, and cultural social system within which they were assigned the role of worker as well as other state-shaped roles in families, households, and communities. They felt the call to fulfill all these roles as a personal obligation to the CPC and the Chinese state rather like the personal obligations medieval European serfs felt toward their own lord and up through the hierarchy to God as ultimate Lord.

The CPC and the Chinese government labeled 'socialist' this combination of extensive social welfare programs, intensive state controls of all aspects of workers' lives, and the consequently personally felt labor obligation of the workers. Images of the state as benevolent social organizer and provider and hence the proven vehicle for meeting the needs of the Chinese people worked to preclude any consciousness of the state's class position as receiver of the workers' surpluses. Indeed, scholars generally agree that the CPC policy of providing basic subsistence and social services raised the level of rural and urban living standards and life expectancy (Bramall, 2000; Howard, 1988; Hussain, 2003; Knight and Song, 2000; Selden, 1988). The material gains of the Chinese masses served to reinforce the state feudal class structure. What unsympathetic critics referred to as the *iron rice bowl*, class analysis would understand rather as *state feudalism with benevolent characteristics* (Gabriel, 2006).

The popular support for the 'socialist social contract' enabled rapid economic growth in production based on a feudal class structure. However, Chinese state feudalism, like other feudal class structures in other places and at other times, had internal contradictions as well as contradictory relations with the political and cultural processes in Chinese society. These contradictions surfaced in workers' resistances to various aspects of Chinese feudalism, in conflicts between industrial and agricultural sectors, in tensions between political and economic leaders, and so on. However, in the specific conditions of the PRC, the contradictions accumulated and eventually exploded in the internal struggles at the highest levels of the CPC that were resolved in a policy of class transition.

## The Chinese Transition to State Capitalism

Throughout the PRC's history, internecine conflicts within the ruling CPC pitted those who prioritized what they called 'the politics of class struggle' against those who prioritized capital accumulation and industrial modernization. These conflicts complexly

shaped the policies that originated within the Party, the composition of its membership, and thus the whole of Chinese society. Of course, CPC conflicts did not alone determine Chinese society and history, nor were those conflicts simply about political class struggle versus expanding production. Many other factors – economic, political, environmental, and cultural – were effective in shaping Chinese society and the CPC. However, we focus here on the struggle between ‘Maoists’ who prioritized political class struggle and ‘modernists’ who emphasized economic growth as a useful metaphor. It facilitates our class analysis of the basic social contest in China between two broadly philosophical ways of understanding and pursuing social change, the appropriate role for the Party, and the optimum path to communism.

The Maoist era is understood as the quarter century after 1949 when Mao’s prioritization of class struggle prevailed: its chief markers were the Great Leap Forward and the Great Proletarian Cultural Revolution. Its overarching theme was the dominant role of the central government in all aspects of social life. Local political leaders and regional and local enterprises’ top managers – whose authority was weakened by the ever-expanding power of the central bureaucracy even as it demanded ever more surpluses from them – often struggled against many Maoist policies. The resulting planning problems and mistakes, economic corruption, and the expanding bureaucracy needed to monitor and control local leaders entailed huge, unproductive costs for maintaining the Maoist status quo. These costs became flashpoints for critics of Maoist class struggle policies as at best premature, given China’s actual economic and political conditions, and at worst dangerous because they diverted scarce resources from capital accumulation and economic modernization. Tensions accumulated and intensified between Maoists and modernists.

Following the collapse of the Great Proletarian Cultural Revolution and Mao’s death, Chinese politics and economics underwent major changes. Maoist class struggle as the Chinese path forward was defeated. In effect, the 1970s saw the rise to power of the modernists. With strong support from local political leaders and enterprise managers, the modernists began to change the policies and reduce the powers of the central bureaucracy inherited from Mao’s time. In class terms, the change was, if anything, more profound.

Modernist ‘reforms’ changed China’s class structure from state feudal to state capitalist (with a relatively small but growing private capitalist sector). First, the State Council received less and less of the surplus as local and regional political leaders along with the chiefs of local and regional enterprises increasingly replaced the State Council as surplus receiver. Second, the feudal social contract gave way to a typically capitalist labor market. Commodity markets proliferated alongside the increased ability of local and regional enterprise directors to determine their products’ prices and *to become the first receivers and distributors of the surpluses produced by their employees*. The State Council itself also changed from a state feudal to a state capitalist central receiver/distributor of surpluses. Unlike the Soviet COM, however, the ‘reformed’ State Council occupied that state capitalist position only in relation to a small number of national strategic enterprises including oil, telecommunications, and construction materials. The State Council did not occupy that class position in the vast majority of what reformers declared to be ‘non-strategic’ enterprises. There, the receipt and distributions of surpluses were increasingly decentralized to township and

village governments in the rural areas and municipal governments in the urban areas (Lin, 2001). Initially, the township and village enterprises (TVEs) were based on former commune industrial enterprises. These rural state capitalist enterprises benefited heavily from the successes of farmers who, thanks to the household responsibility system (effectively a return to the 1950–58 policy of rural agricultural self-employment) instituted in 1978–9, were now predominantly ancients (Gabriel and Martin, 1992).

Modernist reform freed the direct producers from their politically and culturally embedded obligation (social contract) to labor for the socialist revolution (produce surpluses for the State Council). Chinese laborers could now seek employment where they wished. However, Chinese workers were simultaneously freed from the protections (lifetime employment, healthcare, education, etc.) formerly provided by the central bureaucracy. In class terms, the formerly feudal direct producers experienced a transformation into capitalist wage laborers employed by TVEs and SREs. Chinese workers depended now on a labor market instead of a central bureaucracy administering a comprehensive social contract.

During the 1980s, the CPC leadership, with the support and at the urging of local government cadres, carried out the large-scale social engineering required to create labor power markets. Policy changes undermined the permanent employment and social security system inherited from Maoist period. The reforms of the modernists weakened enforcement of *hukou* registration laws. This allowed rural direct producers to migrate both within the countryside and to urban areas to sell their labor power to rural or urban industrial enterprises, many of which had become export oriented. These reforms gave workers relative freedom to sell their labor power to the highest bidder and to move geographically. Other reforms made these freedoms urgent necessities: to survive, Chinese workers had to sell their labor power and often had to move to do so for even a minimal wage.

As Marx noted, labor power markets are the result of ‘many economic revolutions, of the extinction of a whole series of older formations of social production’ (1977: 273). In post-Mao China, the emergence of labor power markets signified a revolution in the prevalent class process in Chinese society from feudal to capitalist. The modernist-led CPC terminated state feudal bondage of direct producers while simultaneously freeing the state of many of its social obligations to those producers.

These transformations resonated with the modernist worldview of the post-Mao leadership: China would look more like the USA and other ‘modern’ societies. The movement from centralized state feudalism to decentralized state capitalism ended the patriarchal role of the central government as ultimate provider for the needs of both other governmental units and individual citizens. Local governments’ revenues increasingly would have to come from local state capitalist enterprises. The central government would likewise rely increasingly on decentralized state capitalist enterprises. Since Chinese citizens would rely ever more heavily on a capitalist labor market, the post-Mao era warrants description as ‘the extinction of a whole series of older formations of social production (i.e. Chinese state feudalism).’

As part of China’s transition from centralized state feudalism to decentralized state capitalism, the State Council reduced financial support for localities, forcing them to be more self-sufficient in funding community development and staff payrolls (Liu, 1999;

Oi, 1999). Local governments had acquired state capitalist class positions as first receivers and hence distributors of surpluses generated within the TVEs and SREs. However, they also became responsible for enlarged local distributions of those surpluses, not only to secure and enlarge TVEs and SREs, but also more broadly to maintain local public services and community development. Receiving surpluses sufficient to make both kinds of distributions has proved a very difficult task even as local officials' political, economic, and cultural influence widened and deepened as a result of China's transition to a decentralized state capitalism.

### Chinese and Soviet State Capitalisms

No doubt, many diverse factors overdetermined why the CPC was successful in achieving a fast-growing state capitalism and maintaining its governing role while its Soviet counterpart could not accomplish these goals. Our comparative class analysis focuses attention on one of these factors: decentralized versus centralized state capitalism. Local officials in China's decentralized state capitalism, partly because of their distance (politically, culturally, and economically) from the directives of the Party and state centers, proved remarkably flexible in finding and developing local resources and exploiting local labor. The center increasingly allowed and the localities actively pursued opportunities to expand their state capitalist enterprises, including forging all sorts of alliances with other domestic and foreign capitalists. The shift from centralized to decentralized receipt of surpluses gave the TVEs and SREs the capital needed to make the most of these opportunities. While social welfare suffered, capitalist production soared. The actuality of prosperity for the few attested to the benefits of local state capitalism. So long as that could be plausibly coupled with the prospect of future prosperity for the many, the CPC maintained mass (although hardly universal) support for its state capitalist program.

For example, local state capitalists proved adept at making lucrative alliances with international capital. Wal-Mart and many other transnationals from the USA, Europe, and Japan became partners with Chinese state capitalists at the local levels. Access to global markets and technology provided by the transnationals combined with extremely inexpensive labor power and eager as well as inexpensive production supports provided by local authorities. Stunning growth in output and employment followed. Local state capitalist enterprises made large portions of their surpluses available to produce and secure the conditions of existence for growing capitalist production of commodities for export. Those portions were not, as they might otherwise have been, distributed to the central state to be swallowed there in outlays for administration, communist party activity, military expansion, and other similar priorities of the central Party and state apparatuses. The center used its surpluses plus its taxes on local surpluses to secure its priorities, while the surplus left in the hands of local state capitalists sufficed to support rapid economic growth. This arrangement, this positioning of a decisive decentralized state capitalist sector alongside a limited state capitalist center, sharply differentiated Chinese from Soviet state capitalism.



In the specific conditions of world politics, the Chinese difference proved to be the better trajectory for a state capitalist economy. Because the USA sought to widen the separation and tensions between the USSR and China, it offered and the CPC accepted a more open and mutually advantageous relationship. The USA got certain kinds of Chinese 'cooperation' vis-a-vis politically isolating the USSR. The CPC obtained access to the US market for its exports, contributing to the accumulation of hard currency to finance technology acquisition and improved infrastructure, which produced conditions conducive to large inflows of private investments from the USA, Europe, and Japan. These further enhanced the growth of TVEs and SREs in a 'virtuous cycle' which also had no parallel in the USSR.

We are not arguing that any inevitability attaches to the success of a decentralized versus a centralized state capitalism. The larger economic, political, and cultural context will determine in each case whether one or the other, neither or both sorts of state capitalism may achieve growth or else wither. Class structures are always dependent upon their social contexts; they can never, by themselves, guarantee their historical trajectories. Our researches suggest that the global context over the last quarter century facilitated economic and geo-political expansion for Chinese state capitalism while it severely aggravated the internal contradictions of Soviet centralized state capitalism.

### **A Postscript on the USSR, the PRC, and Communism**

What might an actual communist alternative have looked like within the USSR and the PRC? Within our surplus framework, a communist class structure is defined as an arrangement of production such that the workers who produce a surplus are also, collectively, the persons who receive and distribute that surplus. This collectivity of workers presumably distributes their own surplus in ways aimed to secure the conditions for this communist class structure to survive and grow. Such a communism's contrast with state capitalism and state feudalism is stark and clear. While the collectivity of workers produces surplus alike in capitalism, feudalism, and communism, only in communism does that same collectivity also receive and distribute the surplus.

Perhaps we can conclude by reposing and answering this basic question: do examinations of the class histories of the USSR and the PRC show that the collectivity of their productive industrial workers received and distributed their own surpluses. We find clearly that they did not. Hence communism did not exist there on a society-wide basis, despite the contrary claims made throughout the decades by friends and enemies alike.

### **Notes**

- 1 We follow Marx in assuming that any use value produced for exchange, whether taking on a material or service form, is a commodity. Most capitalist societies across the 20th century, whether of the private or state sort, have relied upon private markets or planning bodies or combinations of both to produce a set of prices for commodity inputs and outputs. In the case of commodities produced

under planning conditions, such as that which operated in the state capitalism of the USSR, we call their values (and prices) 'administered values (and prices)'. For further discussion, see Resnick and Wolff (2002: 92–4).

- 2 These variations are discussed in some detail in Resnick and Wolff (2002: chapter 2). There it is explained why a communist class structure cannot be assumed to be feasible only in so-called 'primitive communisms'.
- 3 We explain elsewhere the different set of political, cultural, and economic processes operating in the USSR that enabled the collectivity of farmers living and working on these collective farms to first receive and distribute the surpluses they produced (Resnick and Wolff, 2002: 243–57). We also discuss there the paradox this newly established communism in agriculture posed for state capitalism in industry: because collective farmers and not the COM were the first receivers of the surpluses, the COM had to figure out ways and means to tap those surpluses to foster its different state capitalist aims. This contradiction between state capitalist industry and communist and then communist/ancient agriculture continued throughout the history of the USSR.
- 4 Our interpretation of this history is based on a reading of a vast literature on the USSR. Particularly important to us were those writers – some Marxist (Baykov, Dobb, Carr, Bettelheim) and some not (Nove, Davies, Cohen, Gregory and Stuart) – whose interpretations provided us with materials and research closely related to our class as surplus perspective.
- 5 We explain elsewhere how the well-known movement of the terms of trade against agriculture and in favor of industry can be recast in Marxian class and value terms as a set of unequal exchanges between state capitalists and ancient farmers over the 1920s (the NEP period), and then communist/ancient farmers from the 1930s on (Resnick and Wolff, 2002: 213–22, 243–57). These exchanges enabled the COM to gain extra revenues at the expense mostly of communist farmers. Those extra revenues were added to surpluses appropriated from industrial workers.

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