

# The Communist Revolution. Central Planning. The Mao years 1949-1976 Econ 43750

*N.C. Mark*

University of Notre Dame and NBER

August 23, 2020

# Some Preliminary Discussion Points

- What is economic surplus? How to grab the surplus? What if you 'own' the country?
- What is economic exploitation?
- How are resources allocated under market (price) system?
- What is the command system?
- Is there an economic surplus under perfect competition?
- Where does perfect competition exist in the real world?
- Capturing the surplus in the real world: Profits to shareholders, excessive pay to CEOs and management.
- How might a firm generate surplus and exploit some of its workers?
- How might a country generate surplus and exploit some of the people?

## Discussion Kissinger Chapter 4

- Why does Kissinger title Ch.4 as Mao's continuous revolution?
- Security of Mao's inner circle (sound familiar?)
- Mao's view of the Qin Emperor
- Mao's view of Chinese thought and culture

# Discussion of Kissinger Chapter 7

- Origin and result of Hundred Flowers Campaign.
  - What is a 'rightist?'
  - Who was caught up in Hundred Flowers Campaign?
- Origin and result of Great Leap Forward
  - Changes in rural organization during GLF
  - Result from GLF
- Origin and result of Cultural Revolution
  - Who was caught up in CR?
  - When did CR end?

# This Revolution Is Different

Dynasties have been overthrown before. Mao's overthrow is different

- In the past, there was continuation of the system and institutions. (Foreign invaders became Chinese)
- Communists threw out society's entire value system—economics, politics, culture
- Mao admired the Qin emperor, who burned Confucian books and scholars.
- Under Mao, everyone was at risk of being caught up in his upheavals and purges. Every close associate of Mao was purged at one time or another.

# Overview: Command Economy Management

- Goal: to develop a massive socialist industrial complex through direct government control.
  - Soviet Union is the model, main trading partner, source of technology
  - Big Push industrialization, channels maximal investment into heavy industry.
  - Planned economic system phased in between 1949 and 1956 (phased out after 1979)
- Invest in heavy industry.
- Industrial output grows quickly. Agriculture stagnates.
- Equipment, coal, chemical fertilizer, motor vehicles, steel
- Heavy-industry sectors supply other's demands. Spillovers to market development and consumption—small.
- Example, steel: links downstream by supplying good, low cost steel to machinery/equipment, which is good for them. Links upstream to coal, iron ore, and specialized machinery. Called **material balance planning**

# Overview: The Command Economy

- Mao (the CCP) owns the economy—the land, labor, and capital. Allocations not done by price mechanism. Central planner makes the decisions.
  - Urban and Rural areas managed separately
  - Urban: Government owns large factories, transportation, communication enterprises. **State Owned Enterprises.**
  - Rural: agricultural **collectives** own the land, manages the farm economy. Collectives  $\Leftrightarrow$  Village
  - Planners assigned production targets to firms, allocated resources and goods among the producers.
  - Prices have no allocative significance. Factory products expensive, farm products cheap.
  - Movement of people restricted to keep peasants in countryside
  - Finances used to audit and monitor, not to drive investment decisions.

# Overview: Command economy

- Chinese Communist Party (CCP)
  - Controls urban and party administrative career paths.
  - All working adults are connected to party and government through workplaces (collectives or urban state/collective units)
  - *Nomenklatura* is the list of urban jobs, controlled by CCP to manage public sector personnel.
  - Hierarchy: each level supervises performance, appointments of personnel at the next lower level.
  - CCP controls career paths and incentive structure.
- Grain procurement system-tax the peasants. Extract the surplus
- State owned enterprises (SOE) surpluses are main source of government revenue.
- Material balance planning used to run the economy. This is computing sources and uses of an individual commodity to allocating all supplies. Planners assign quantities, ignored prices.



# Recovery from WWII: 1949-1952

- CCP inherits broken economy and hyper inflation.
  - Inflation controlled by 1950.
  - Industry and agriculture recovers by 1952.
- Countryside: land reform. Land is privately owned.
  - Land redistributed to private households. CCP urged peasants to seize property from landlords and split among the peasants.
- Urban areas: Initially, CCP **welcomes** non-communists to stay and work with new government. The so called 'New Democracy'. Capitalists, intellectuals and scientists convinced to contribute to new China.

Take note: Popular support for communists, initial enthusiasm, new political structure, urban work units, extreme rural poverty, land reform, Mao Zedeng, Liu Shaoqi, Zhou Enlai, Deng Xiaoping, Jiang Qing,

<https://www.youtube.com/watch?v=SXQ09uDnevA&list=PL35E305E3D2CD6415&index=2&t=0s> (play part 1, 9 minutes)

# Stages of Rural Organization

- Land reform. Take from landlords, give to peasants
- Formed cooperatives
- Collectivization
- Combined collectives into communes
- Break up communes, revert to collectives

# First Five Year Plan

- Consults Soviets to implement Big Push strategy.

Take note: Soviet support,

<https://www.youtube.com/watch?v=yEybuhiRW0&list=PL35E305E3D2CD6415&index=2>

(play 0 to 1:30)

- China is still a mixed economy at this point. Small household farms still dominated agriculture, but government was a monopoly over grain purchases.
- Step 1 was land reform. Next, socialization of agriculture
  - Step 2: Pool family farms into cooperatives. This makes farming more efficient by increasing scale. Freed up some labor. This was popular
  - Step 3: Collectivization. Private property abolished. Peasants not allowed to own tools, animals or land. Agriculture under government (village) control. Countryside markets shut down. Poor incentive structure lowers output and makes peasants worse off. Unpopular!

<https://www.youtube.com/watch?v=cGcY7nryA1U&list=PL35E305E3D2CD6415&index=3&t=3m12s>

(play 3:12-7:24)

# Hundred Flowers Campaign 1956

- Begins with Mao asking for constructive criticism of the party. The Hundred Flowers campaign.
  - People think is beginning of democracy
  - People complained about corruption, inefficiency, backwardness in medical care, etc.
- People in CCP upset by criticism. Backlash. Mao reverses himself.
  - Call critics 'rightists.'
  - Initiate 'Anti-rightist' campaign. Target and purge the rightists, send to forced labor camps.
  - Shuts down dissent

Hundred Flowers campaign <https://www.youtube.com/watch?v=cGcY7nryA1U&list=PL35E305E3D2CD6415&index=3&t=7m50s>  
(stop 6:12 part 4)

# The Great Leap Forward (1958)

- Speed up the industrialization process with Great Leap Forward (GLF) campaign.
- Goal: to pass UK and match the US in 15 years.
- Strategy: Get people to work day and night by promising them a better future.
- Raise  $L$  in production function

$$Y = F(K, L)$$

- The people were so enthusiastic, out there building reservoirs, planting trees, singing happy revolutionary songs, dreaming of worker's paradise.
- Step 4: Communes (combined hundreds of collectives), for agricultural output. Also construction projects, social services, develop small-scale industries

# Results

- Managers given production quotas. Incentives were to meet high quotas, so they faked the numbers. Superiors believed the faked numbers. Since they believed agriculture was so productive, the cut back on resources available for food production.
- Government increased the grain procurement (tax). Believed crackpot science for agricultural techniques (deep plowing, superdense compact planting) could double crop yields.
- Result: less total food produced, more extracted from country side.
- Some labor moved from country side to work in (legitimate) steel mills.
- Backyard steel mills–Communes ordered to make steel. People burned their furniture, window frames etc. to fuel the steel furnaces. Melted pots and pans, tools to remake as new steel. The output was useless.  
Take note: Mao becomes impatient, people to work harder, communes, backyard steel furnaces (3:55), crackpot agricultural theories, excessive output targets and procurement,  
<https://www.youtube.com/watch?v=lgzcgw6gNYfw&list=PL35E305E3D2CD6415&index=5>  
(stop part 6, 1:10)
- Then,...the Great Famine. Nobody (across countries, across provinces) knew about it due to information suppression.

# Great Famine

<https://youtu.be/zFSUwg2mXy0?list=PL35E305E3D2CD6415&t=74>

(play to end, continue to part 7, end at 1:18)

<https://www.youtube.com/watch?v=JonhSqM-tTc&list=PL35E305E3D2CD6415&index=7&t=2m30s> (stop 4:10)

# Recovery, then Cultural Revolution

- Mao withdraws from government, gives up being head of state.
- Liu Shaoqi becomes HOS, works with Zhou Enlai and Deng Xiaoping to rebuild country. Switch from heavy industry towards consumer goods
- Experimented with “household responsibility system” for peasants. Rights to plots leased to peasants who could grow crops to sell in rural market place.
- Then Mao becomes resentful. Plots the Cultural Revolution to purge the party. Mobs drag Liu out of his house and beat him. He dies in prison. Deng exiled to remote village. Deng's son thrown off the roof of a building. The Red Guards maulade thorough the country causing havoc and destruction.

Take note: Mao takes on cult-leader status, launches Cultural Revolution, demotes Liu and Deng, Red Guards

<https://www.youtube.com/watch?v=JonhSqM-tTc&list=PL35E305E3D2CD6415&index=7&t=7m20s> (stop 6:18 part 8)

Mao is like a national cult-leader,

<https://youtu.be/foDh1QqcRnY?list=PL35E305E3D2CD6415&t=464>

(stop at 8:44)

Red Guard havoc,

[https://youtu.be/bW6L\\_kRkUBU?list=PL35E305E3D2CD6415&t=34](https://youtu.be/bW6L_kRkUBU?list=PL35E305E3D2CD6415&t=34)

(stop at 4:30)

Even the head of state, Liu Shaoqi wasn't safe nor was Deng Xiaoping. Jiang Qing (Mao's wife) was the worst!

<https://youtu.be/RqyNMNtfjeA?list=PL35E305E3D2CD6415&t=34>

(stop at 3:30 part 10)

- Interestingly, Cultural Revolution does not show up in economic data.