

## How a Change in Chinese Ideology in the Early 20th Century Harmed China's Economic Growth and Modernisation

*Kent Deng*

Evidence suggests that although slowly China was on a 'right track' to modernise after 1840 with the approach of *zhongti xiyong*, or 'Chinese values as the foundation and Western knowledge for practical purposes'. There was a nearly identical approach in Meiji Japan.

Such an approach, Qing China maintained its living standards while its export and manufacturing sector experienced a moderate boom. By our current standards, China had dual ISI and EOI. As the Qing state still committed to its low tax regime, the way to finance state-run ISI was to raise money from the commercial sector and from foreign banks. The Westernisation Movement did deliver some encouraging result in terms of building up China's own industrial base. The latter was entwined with China's humiliating war reparation payments. But on the whole, the economy was growing with an equilibrium maintained. Peasant property rights were well protected. Persistent and extensive disaster relief projects were actively implemented. Large-scale famine was successfully avoided. It is believed that the standards of living at the end of the Qing were generally higher than that during the 1910s to 1980s.

Things began to go wrong after 'The 1911 Revolution' and in particular after 'The 1919 4th May Movement' which challenged and wrecked China's old social order and China's well-tested ideology, especially the *minben* (people as the foundation) and *nongben* (physiocracy), and its related political economy and economic institutions. What 'The 1911 Revolution' and

in particular after 'The 1919 4th May Movement' did was to undercut China's own political economy by perusing a West-like society in China whose economy would be based on modern science and whose state western democracy. From this moment, China's indigenous workable 'egalitarian, utilitarian and authoritarian paradigm' (such as *minben*, *nongben*, and *zhongti xiyong*) was radically replaced by 'class-divided, utopian and totalitarian paradigm'.

The post-Qing Chinese state wanted to be seen as Gerschenkron judged by Sun Yat-Sen's 'Three Populist Doctrines' (*sanmin zhuyi*, namely *minzu* or national independence, *minquan* or democracy and *minsheng* or people's livelihood). But at best pseudo-Gerschenkron as it failed to substitute China's missing prerequisites for industrialisation and modernisation. Politically, after Sun Yat-Sen's revolution which was poorly organised and poorly executed from start to finish, China degenerated to numerous de facto feudal states controlled by warlords. This ushered in feudalism in China after its long absence in Chinese history. Large landholding began to rise hand in hand with the increase in tax burden in each such warlord's domain. Sun and his followers were part of the problem as their seeming internal unity ended very easily. The civil wars between the warlords of all kinds severely weakened China's capacity to defend its territory which in turn gave the Japanese the opportunity to begin their systematic invasion and colonisation of mainland China in the 1930s. The collapse of China's internal peace and national security removed China's already possessed conditions for growth and development instead of substituting missing prerequisites of the Gerschenkronian type. The KMT was clearly not democratic from the start. Instead it was a party believed in Leninist one-party dictatorship. The KMT's hostile attitude towards China's national bourgeoisie and domestic capital, which is justified by Sun Yat-

Sen's 'Three Populist Doctrines' (*sanmin zhuyi*, namely *minzu* or national independence, *minquan* or democracy and *minsheng* or people's livelihood), did not help much with capitalist development in China. In contrast, Shanghai where KMT's control was weak became the capitalist enclave until Japanese attack in 1937. The standards of living amongst ordinary Chinese from 1911 to 1937 were no higher than those under the Qing as the economy was dogged by chaos, inflation, and high unemployment rates. In the end, all Sun Yat-Sen's 'Three Populist Doctrines' (*sanmin zhuyi*, namely *minzu* or national independence, *minquan* or democracy and *minsheng* or people's livelihood) failed miserably.

After 1949, Maoism became the state philosophy of Mainland China. In the wake of a torrential era of invasion and civil war between 1840 and 1949, the establishment of Mao's new China, the People's Republic, was commonly viewed as a turning point in modern Chinese history, heralding newfound peace, political stability and economic prosperity. Even today, Mao's era, 1949-78 (begun with the establishment of the republic and ending with his short-lived successor Hua Guofeng), is taken as a period of fast growth regardless of the periodic political purges masterminded by those at the very top.

However, a close examination of the growth performance during Mao's era leads to a rather different picture, a picture of political coercion, economic exploitation and widespread poverty. This removes much of the mystique surrounding the *raison d'être* for market reform under the leadership of Deng Xiaoping from 1978: ruined and deeply unpopular, Mao's socioeconomic system needed to be replaced.

Mao's first act after seizing state power in 1949 was a bid to reconstruct China's society and economy. Mao, a radical anti-traditionalist, abandoned China's timeless, functional economic structure together with its

cluster of well-established institutions. This system was labelled by Mao as feudal, backward and reactionary. While he was categorically market-phobic and xenophobic (as much a result of his ideological commitment as of his ignorance), Mao and his aides religiously replicated Stalin's political and economic structure, strategy and, inevitably, mistakes to the full. There were four nails in the coffin.

First, the extreme Soviet policy of import substitution strategy for industrialisation (ISI) was adopted, a strategy proposed by Lenin in his fantasy of 'building socialism in one country' in total economic and technological isolation. This led to an embargo against foreign inputs during Mao's era. This embargo was as much self-imposed as it was externally implemented by the West and by the post-Stalin Soviet Union.

Second, the centrally planned Soviet command economy was taken as a system far superior to the market economy in facilitating growth, especially the illusion that 'public ownership' would free the otherwise stifled 'productive forces' for good. This in turn created a fantasy that an economic miracle of 'super-industrialisation' could be achieved, which would allow China to surpass the capitalist prowess of the United States and Great Britain. This formed the rationale for the disastrous 'Great Leap Forward' a decade after Mao assumed power.

Third, Stalin's proletarian dictatorship was copied, resulting in unprecedented political control over all aspects of the life of individuals: production, consumption and distribution. Private property rights were banned, and any resistance to the state's expropriation, commandeering and requisition of land, capital and labour were ruthlessly crushed. Systematic brainwashing helped smooth the acquisition of resources by the state.

Last, the state and its economic target became completely alienated from the interest of the general public, and this in turn created widespread

economic disincentives as people became increasingly disillusioned by a harsh everyday economic reality with poverty at its center.

Mao's economy was a product of total distortion. An 'unbalanced growth' strategy that supported heavy industry and the arms industry was inspired by Stalinist thinking. This is reflected in the data from Table 1. By 1978, some 17 percent of China's labour force was employed in the industrial sector, which claimed about half of China's total gross domestic product (GDP). The high GDP shares for the industrial sector in both sectoral total and per capita terms confirm that the need for modernisation in the agricultural sector was ignored. This is not to mention the deliberate inflation of GDP share as a result of the state-controlled terms of trade between the agricultural and industrial sectors, an issue that will be dealt with later. Clearly, from the economic structure point of view China was not modernising or industrialising.

Table 1. China's Economic Structure Seen in Employment Pattern, 1978

	Total Employment	Agriculture	Industry	Services
Mao's China 1978	100%	71%*	17%	12%
Ming-Qing China	100%	80%	20% (including services)	
Russia/USSR 1914	100%	75%†	25% (including services)	
1926	100%	86%	12% (including services)	
1939	100%	54%	45% (including services)	
Japan 1872	100%	72%†	28% (including services)	
1920	100%	54%	46% (including services)	
1940	100%	42%	58% (including services)	
India 1901	100%	65%†	35% (including services)	

Source: Based on Li 1995; Zhang 1998; Charlesworth 1982: 20; Feuerwerker 1984: 299, 302, 312–13; Chao 1986: ch. 3; Minami 1986: 24; Wheatcroft *et al.* 1986: 273; Maitra 1991: 101, 132; Francks 1992: 29; Davies *et al.* 1994: 112; Gregory 1994: 21, 42.

Note: \* Minimal proportion: some data suggest that in 1978 the total rural population was 803.2 million out of China's 962.5 million which made the rural share 83 per cent of China's total (Ling 1997: 102).  
† Rural population as a proxy.

Table 2 serves as a comparison to show the distortion and its hangover (till the 1990s) of the Chinese macroeconomic structure.

Table 2. China's Economic Structure Seen in Shares in GDP, 1960 and 1978 versus 1994 and other countries

Year	Total	Agriculture	Industry	Services
China under Mao				
1960	100%	27%*	60%†	13%
1978	100%	28%*	49%†	23%
China after Mao				
1994	100%	19%	49%	32%
Japan				
1920	100%	25%	19%	56%
1930	100%	21%	24%	55%
1965	100%	10%	44%	46%
India				
1965	100%	44%	22%	34%
1989	100%	30%	29%	41%

Source: Based on Li 1995; Zhang 1998; *People's Republic of China Year Book, 1996/97*: 397; *China's Statistic Year Book 1983*: 24; Ray 1979: 17; Lal 1988: 126–7; Rothermund 1993: 177; Gregory 1994: 28, 30.

Note: \* Nominal value only, which should be considerably higher if the scissors pricing is taken into account.<sup>1</sup>  
† Nominal value only, which should be considerably lower if the scissors pricing is taken into account.

Within the industrial sector, much emphasis was put on heavy industry, unmistakably of the Stalinist type, as revealed by Table 3. This structural distortion inevitably led to a 'famine of consumer goods' as

<sup>1</sup> Scissors pricing is the legacy of Mao's economic policy. In the early 1990s, analysts suggested that to equalise the sectoral incomes between agriculture and non-agriculture the price level for grain had to be increased fivefold (Fan 1995: 39). Here, a conservative 50 per cent weight is used for the estimation.

disproportionate resources were employed to produce capital goods, of which a large proportion was indeed for heavy industry's own service.

Table 3. China's Industrial Structure

Year	Gross Product	Heavy industry	Light industry
Mao's period			
1978	100%	56.9%	43.1%
1995	100%	50.5%	49.5%

Source: Li Jingwen 'Zhongguo Chanye Jieguode Bianhua Yu Fazhan Qushi' (Change and Trend in China's Industrial Structure). *Xinhua Wenzhai (Xinhua Compilation)* 8 (1998), p. 54.

Not surprisingly, the agricultural sector fell behind the industrial sector in relative terms. Taking China's population into account, Table 4 shows how the agricultural sector suffered complete stagnation during Mao's years. It began to catch up with industry only after the end of Mao's era, as shown in the data in Table 5. But the damage was already done.



Table 4. Growth in Total Grain Output versus Growth in Total Population

Year	Number	Index	
A. Total grain (million tons)			
1953	177	100	
1978	300	169	
	Annual growth		2.1%
B. Total population (million persons)			
	1949	450.0	100
	1958	659.9	147
	1978	962.5	214
	Annual growth		2.6%

Source: Based on Cui 1997: 10–11, 15; Jiang 1994: 70.

Table 5. China's Output Growth (1952–83) Compared to the USSR (1928–32)

	Gross increase	Net increase*	Gross increase
China	Mao's era 1952–78 (% annual)	Mao's era 1952–78 (% annual)	Post-Mao 1978–83 (% annual)
Industry (A)	11.2	8.6	7.9
Agriculture (B)	3.2 (2.7†)	0.6 (0.1§)	7.9
A:B	3.5 (4.1§)	14.4 (86.0§)	1.0
USSR	Stalin's super-industrialisation 1928–32 (% annual)		
Industry (A)	12.5¶		
Agriculture (B)	9.0¶		
A:B	1.4		

Source: Based on Lippit 1987: 107; Ellman 1975: 845; *cf. China's Statistic Year Book 1985: 239; He 1994: 7–8.*

Note: \* Net growth rate by discounting population growth at a rate of 2.6 per cent per year during Mao's era (He 1994: 7).  
† China's own statistics (*China's Statistic Year Book 1985: 239*).  
§ Derived from China's own statistics (*China's Statistic Year Book 1985: 239*).  
¶ GDP growth as a proxy.

Both agriculture and light industry (which was also responsible for the supply of consumer goods) experienced negative growth. As stagnation reduced the surplus margin for the agricultural sector, such negative growth caused a nationwide famine from 1959–61 known as the 'Three-Year Long Great Disaster,' in which 30 million died of starvation. As the climate for farming was nothing out of the ordinary the disaster was almost certainly

man-made (see Table 6). China's real GDP growth was negative in the 1960s (Tables 7 and 8)

Table 6. Official Statistics for the aftermath of the Great Leap Forward, 1960–2

	1958	1960	1962
Agriculture nominal (billion <i>yuan</i> )	56.6 (100)*	45.7 (81)	
Agriculture real (billion <i>yuan</i> )	56.6 (100)	43.8 (78)	
Light industry nominal (billion <i>yuan</i> )	61.6 (100)	43.4 (70)	
Light industry real (billion <i>yuan</i> )	61.6 (100)	41.6 (67)	
Capital investment nominal (billion <i>yuan</i> )		31.2 (100)	6.0 (19)
Capital investment real (billion <i>yuan</i> )		31.2 (100)	5.8 (18)
Budget deficit (billion <i>yuan</i> )	6.6† (100)	8.2 (124)†	±5 (78)†
Iron and Steel (10, 000 tons)		1,886 (100)	600 (32)
Investment projects		1,800 (100)	1,000 (56)
State-owned enterprises		96,000 (100)	52,300 (54)
Capital returns (%)	100	0.73 (0.7)	
Labour productivity (%)	100	62 (60)	

Source: Based on Lu 1999: 44; Li and Zhang 1999: 188, 201.

Note: GDP figures in parentheses – real GDP at the 1958 constant price by discounting an annual inflation rate of 2.01% (Li 1997: 49–50). But, in reality, there was a price surge in 1960 for consumer goods (Song and Qiao 1998: 168; Li and Zhang 1999: 190). Thus, this average rate of 2.01% should be taken as the minimum. Index figures in parentheses – real GDP index unless indicated.

\* Figures that were inflated under the Great Leap Forward regime with agricultural outputs being boasted out of proportion.

†1959 figure.

‡Current price.

Table 7. China's GDP Annual Growth Rates (%), 1949–66

Period breakdown	Nominal GDP {A}	Real GDP {B}	B–A
A. Overall (1949–66)	9.2 (6.6)	5.9 (3.3)	–3.3
B. Institution-oriented sub-division			
(1) Pre-socialist period (1949–55)	14.0 (11.4)	11.5 (8.9)	–2.5
(2) Socialist period (1956–66)	6.1 (3.5)	2.3 (–0.3)	–3.8
C. Growth-oriented sub-division			
(3) Fast growing period (1949–60)	11.8 (9.2)	9.0 (6.4)	–2.8
(4) Slow-down period (1961–6)	9.7 (7.1)	4.5 (1.9)	–5.2
D. Mao's long-term annual (1949–66)*	6.1	2.3	–3.8

Source: Based on Tables i and ii in Appendix.

Note: \* Estimated by CIA. Figures in parentheses – net GDP growth by discounting population growth at a rate of 2.6 per cent per year during Mao's era (He 1994: 7).

Table 8. Agricultural Output and GDP Performance, 1952–77

Year	Gross Output (billion <i>yuan</i> )				Real GDP*			
	(Current Price)	Index (I)	(1952 price)*	Index (II)	Nominal GDP (billion <i>yuan</i> )	Index (III)	(billion <i>yuan</i> )	Index (IV)
1952	41.7	100	41.7	100	34.0	100	34.0	100
1957	53.7	129	48.1	115	42.5	125	38.1	112
1962					44.4	131	34.6	102
1965	59.0	141	41.6	100				
1967					70.3	208	45.8	135
1972	70.4	169	36.0	86	83.0	244	42.4	125
1977	80.7	194	28.7	69	98.1	289	34.9	103
Gross annual		2.7%		-1.5%		4.3%		0.1%
Net annual†		<b>0.1%</b>		<b>-4.1%</b>		<b>1.7%</b>		<b>-2.5%</b>

Source: Based on *China's Statistic Year Book 1985*: 239; cf. ZJB 1999: 24, 40, 51, 64–5, 76–7, 99–100, 108–9, 128, 141, 155, 222–3, 257–8, 291–2.

Note: \*Conversion is based on the average inflation rate of 2.01% per year for the period of 1950 to 1978 (Li 1997: 49–50).  
†Net growth by discounting population growth at a rate of 2.6 per cent per year during Mao's era (He 1994: 7).

Although the industrial sector was continuously given priority with generous funding and all-round protection, and although official statistics for the sector's growth were always rosy, Maoist ISI was deep in crisis. Since the 1979 reforms to replace economic planning with market forces, as much as two-thirds of state-owned enterprises have been operating in the red. Today, in most cases, when a state-owned enterprise bids for a joint venture with a foreign business partner, a high discount rate (often over 50 percent) is applied to its capital stock. This is just one indicator of the gap between Communist artificial value and the market value of the same capital stock.

Thus, the industrial growth during Mao's era was by and large a false economy, with pseudo-fast growth supported by systematic economy-wide distortion. It was wasteful and unsustainable.

Distortion also appeared in the finance sector. Wherever the import substitution strategy of industrialisation is implemented, the economy faces budget constraints. Mao's China was certainly no exception. Given that China was crippling impoverished after three consecutive major wars from the 1930s to the early 1950s (the Counter-Japanese Invasion, the Communist-Nationalist Civil War and the Korean War), the budget constraints were even more severe than those faced by the Soviet Union in the interwar years of 1920-40. The only way for the state to overcome these constraints was to impose ruthlessly forced savings on the masses. For a die-hard teleologist like Mao, this was not a problem, as the notion of 'powerful state but poor people' was popular among Stalinist leaders.

So, à la Stalin, Mao's regime simply scraped up funds from ordinary people's basic needs. Table 9 reveals how forced savings in terms of 'accumulation' were made from the economy as a whole for capital formation. Based on the information in Tables 1-3, much of the new capital just ended up feeding heavy industry.

Table 9. Capital Accumulation Rate versus Consumption Rate

Year	Accumulation Rate	Index (I)	Consumption Rate	Index (II)	I:II
A. Fast growing period					
1952	21.4	100	78.6	100	1.0
1953	23.1	108	76.9	98	1.1
1954	25.5	119	74.5	86	1.4
1955	22.9	107	77.1	98	1.1
1956	24.4	114	75.6	96	1.2
1957	24.9	116	75.1	96	1.2
1958	33.9	158	66.1	84	1.9
1959	43.8	205	56.2	72	2.8
1960	39.6	185	60.4	77	2.4
B. Slow-down period					
1961	19.2	90	80.8	103	0.9
1962	10.4	49	89.6	113	0.4
1963	17.5	82	82.5	105	0.8
1964	22.2	104	77.8	99	1.1
1965	27.1	127	72.9	93	1.4
1966	30.6	143	69.4	88	1.6
1967	21.3	99	78.7	100	1.0
1968	21.1	98	78.9	100	1.0
1969	23.2	108	76.8	98	1.1
1970	32.9	154	67.1	85	1.8
1971	34.1	160	65.9	84	1.9
1972	31.6	148	68.4	87	1.7
1973	32.9	154	67.1	85	1.8
1974	32.3	151	67.7	86	1.8
1975	33.9	158	66.1	84	1.9
1976	30.9	144	69.1	88	1.6
1977	32.3	151	67.7	86	1.8
1978	36.5	171	63.5	81	2.1

Source: Based on Lippit 1987: 155.

Much of the forced savings were also made through strict wage control. Consequently, the Chinese urban wage rate was at best frozen; this is clear from Table 10. This was compatible with the underlying practice of Maoist economic management: the subsistence wage was used as the only parameter for labour cost in economic planning.

Table 10. Frozen Wage in the State Sector, 1957–78

Year	Nominal wage rate (monthly)	Index	Real wage rate (1957 price)*	Index
1957	637	100	637	100
1961	537	71	493	77
1965	652	93	539	85
1970	609	88	429	67
1976	605	86	327	51
1978	644	88	310	49

Source: Based on Lippit 1987: 150; *cf.* Zhao 2000: 100.

Note: \*Conversion is based on the average inflation rate of 2.01% per year for the period of 1950 to 1978 (Li 1997: 49–50).

Forced savings also took the form of taxation. Under Mao, direct taxes were heavy. The industrial tax rate averaged 86 per cent of the ‘net national product’ (physical output minus physical inputs), one of the highest in the world in 1980. However, since the industrial tax revenue was constantly



ploughed back to the industrial sector, it did little harm to further capital formation and production.

The agricultural tax was set up from 1958 onwards at a rate of 15.5 per cent of the total physical output. Thus, in real terms, it taxed the physical inputs (now embodied in the total output) as well. This rate of 15.5 per cent was much higher than China's pre-modern norm of 6-10 per cent. The total revenue from agricultural tax from 1958 to 1978 totalled 341 billion yuan, or 17.1 billion yuan per year. It is known that the total asset of the agricultural sector (excluding land) was only 15 billion yuan (as in 1978), and that resources in the agricultural sector were overdrawn.

Given that the agricultural tax revenue was taken away from the agricultural sector to finance industrialisation, the Chinese farmers saw no returns from what they had to pay to the Maoist state. Especially considering that the surplus margin of the ailing agricultural sector was already very small, heavy taxation further harmed capital formation and production in the sector, creating a vicious circle.

Mao's forced savings also took the form of indirect taxes, among which the most damaging was associated with 'scissors pricing,' a persistent policy of Stalin's regime. The thinking behind this practice is that since the peasantry is dependant on state-controlled industrial and service sectors, and since the state is able to monopolise inter-sectoral exchange, the state is also able to distort the terms of trade between the agricultural and industrial/services sectors in order to extract a profit. It is a type of arbitrage on an economy-wide scale. For the agricultural sector this was a systematic rip-off. Notoriously, this arbitrage was justified as 'socialist primitive accumulation of capital,' although it completely contradicted Socialist/Communist ideology. Table 11 shows how the terms of trade

between the sectors were manipulated. Evidently, the price gap increased further in the 1960s and 1970s.

Table 11. Economy-wide Arbitrage by Mao's State, 1950–6

Year	Industrial goods price index	Agricultural goods price index	Profit index
1950	100	100	0 (0)
1951	108	93	15 (100)
1952	110	90	20 (133)
1953	120	80	40 (267)
1954	123	78	45 (300)
1955	120	80	40 (267)
1956	125	77	48 (320)
Average	115	85	30

Source: Based on National Price Commission 1964: 21.

This economy-wide arbitrage institutionalised the income gap between the urban and rural communities. In the early 1990s, analysts suggested that even after several attempts to narrow the gap the price level for grain had to be increased five times before the income differentiation between agricultural and non-agricultural sectors was equalised.

To show just how effective this arbitrage was, between 1958 and 1978 the total profit from state arbitrage amounted to an astonishing sum of more than 600 billion yuan, more than the total investment by the state in capital stock (500 billion yuan) of the same period (not to mention the 341 billion

yuan tax revenue from agriculture). Thus, it is no exaggeration to say that Mao's ISI was completely financed by the agricultural sector. Judging by the Maoist false economy in industrial growth, much of the resources extracted from the agricultural sector went to waste.

When we put all the mechanisms and behaviour of Maoist economy together, widespread poverty in China was inevitable. First, standards of living among the Chinese population were kept at subsistence level. This is supported by the persistently high Engel's coefficients (i.e., the proportion of the total income to be spent on food). It is thus not surprising that the majority in Mao's China had a hand-to-mouth existence. In the 1960s to 1970s, China's overall Engel's coefficient was as high as 0.7 (He 1994: 8). In 1978, the Engel's coefficient for the urban sector (16 per cent of China's total) was 0.58. The rural Engel's coefficient for the rest of the 84 per cent of population was thus 0.72 (Cui 1997: 12). Poverty was just another symptom of unsustainability in economic growth.

Second, the dependent-supporting capacity of one full-time wage deteriorated by some 50 per cent (see Table 12). Together with the high Engel's coefficients, a reduced dependent-supporting capacity of the worker's wage implies that the urban population lived on less food of poorer quality.

Table 12. Average Income Measured by Dependant-Supporting Capacity per Wage Worker

Year	Average family (persons)	Dependents (persons)
Pre-1949	–	4.0
1957	4.47	3.3
1964	5.80	3.4
1970	–	2.5
1977	4.49	2.1

Source: Based on Cui 1997: 17–18.

Economic historians generally agree that standards of living in China as recently as the eighteenth and nineteenth centuries were still comparable with those in Western Europe. Given that China has been ranked at the very bottom of the world income league table even today, the Maoist regime did practically nothing to improve ordinary people's lives. Even worse, the regime deliberately institutionalised and reinforced poverty (not to mention its responsibility for the great famine in 1959-61) in the name of Communism. Last but not the least, there is a general illusion that Mao's China was poor but equal. Evidence suggests the opposite: inequality increased under Mao as measured by Gini coefficient, and it was the post-Mao reform that was able to reset the clock (see Table 13).

Table 13. Trend in Inequality Seen from the Gini Coefficient

	Year	Gini coefficient	Index
A. Mao's era	1952	0.25	100
	1958	0.37	148
	1978	0.31	124
B. Post-Mao period	1983	0.28	112
	1992	0.33	132

Source: Based on Zhang 1994: 41.

For the ordinary Chinese, food supply was almost constantly short (see Table 14).

Table 11i. China's Food Availability Seen from Food Export (in 10,000 tons)

Year	South China	North China	China total
A. Pre-socialist Period			
1953	257.3	43.2	300.5
1954	165.9	106.5	272.4
1955	265.3	54.7	320.0
B. Socialist period			
1956*	345.1	-8.7	336.4
1957	426.4	-161.1	265.3
1958	432.5	-12.1	420.4
1959†	438.3	151.5	589.8
1960	308.3	-138.8	169.5
1961*	19.1	-428.5	-409.4
1962	26.2	-359.4	-333.2
1963	130.3	-428.1	-297.8
1964	230.8	-351.5	-120.7
1965	263.1	-446.1	-182.9
1966	201.0	-179.6	21.4
1967†	164.6	11.7	176.3
1968	197.5	-173.5	24.0
1969	187.0	-256.3	-69.3
1970	191.7	-198.7	-7.0
1971	239.0	-150.0	89.0
1972	181.5	-392.0	-210.5
1973	159.4	-390.1	-230.7
1974	227.5	-281.5	-54.0
1975†	145.1	54.7	199.8
1976	70.8	-125.5	-54.7
1977	11.5	-406.0	-394.5
1978*	-105.2	-574.9	-680.1

Source: Based on DNS 1998: 251.

Note: \* Turning points in terms of food shortage.

† Exceptional harvest.

Table 15 reveals the outcome of the crisis in terms of goods production and consumption.

Table 15. Decline of Consumers' Goods in 1960 (1959=100)

	Grain	Sugar	Cotton	Oil	Egg	Poultry	Pig	Meat
A. Gvt. procurement	66	36	77	58	–	–	69	–
B. Retail sales	–	–	–	–	70	49	–	71
C. Consumption	81	–	41*	–	–	–	–	30†

Source: Based on Song and Qiao 1998: 174; Li and Zhang 1999: 189–90.

Note: By 1979 the state controlled 100% of the pricing of all industrial goods, 97.8% of the pricing of all the goods marketed (Chen *et al.* 1999: 33). Thus, the decline had little to do with price fluctuations.

\*Cotton cloth as a proxy.

†Pork as a proxy.

Appallingly, much of the investment in China's industrial growth was simply wasted. Similar to the problem in the Soviet Union, Mao's China had deteriorating capital efficiency. During the period of 1953 to 1980, China's average return-to-investment ratio was 0.30 and its return-to-reinvestment ratio was only 0.18, a clear case of diminishing returns in capital investment (He 1994: 8).<sup>2</sup> In other words, there was a great deal of over-investment in Mao's economy. Much of the over-investment was made in regions and sectors where the returns were minimal. In 1958–78, the aggregate state investment was 500 billion yuan of which 80 per cent (400 billion) was

<sup>2</sup> China's low capital efficiency was clearly reflected by its poor energy input-to-output ratio. In the early 1990s, China's energy input-to-output ratio was twice that in the US and 6 times that in Japan (Zhang 1994: 65).

allocated in the 'rear' or 'outback' provinces (Cui 1997: 19). This was what can be called 'pseudo-development' with resources ruthlessly wasted.<sup>3</sup>

Table 15 shows this pattern of 'pseudo-development': in the hinterland regions, the decline in capital efficiency was 1.3 times faster than its coastal counterpart but the speed of fixed capital investment in the hinterland increased twice as fast as than in the coastal regions. The acid test for this investment pattern comes from the fact that by 1978 the hinterland-biased investment did not change China's regional growth differentiation: not only did the per capita income level of hinterland remain marginalised, but also the regional per capita income gap increased by 32.5 per cent (Hu *et al.* 1995: ch. 2, especially p. 54). Indeed, most hinterland regions are still regarded as poverty-stricken areas today (Zhou and Lu 1997; Zeng and Guan 1998). This simply means that the growth from the investment in hinterland did not trickle down to benefit the general public as it should have done.

---

<sup>3</sup> This sounds like a cliché but still true: quite the opposite of what Marx predicated, it is the inflexibility of the centrally planned command economy that has led to its demise in a developmental race with capitalism (see Harriss 1995: 22).



Table 15. Geographic Allocation of Capital Investment and Capital Efficiency

Year	Total fixed capital (billion <i>yuan</i> )		Total net product (billion <i>yuan</i> )	
	Coast	Hinterland	Coast	Hinterland
A. Invested amount				
1952	10.7 (100)	4.2 (100)	23.8 (100)	10.5 (100)
1978	140.0 (1,380)	179.3 (4269)	257.5 (1082)	165.6 (1577)
B. Capital efficiency				
1952	2.2 (100)	2.5 (100)		
1978	1.8 (82)	0.9 (36)		

Source: Based on Cui 1997: 19.

This legacy of ‘pointless investment’ (*mangmu touzi*) continued in the post-Mao period with multiple symptoms. First, until the early 1990s, of the total of 2,200 billion *yuan* of fixed capital, one-third was idle which was a waste for the economy. Second, only one-third of all the state-owned enterprises (presumably modernised to their teeth by Chinese standards) managed to break even or make some profit. The remaining two-thirds made losses and a great many such enterprises were virtually on the brink of

bankruptcy (as at 1995, see Pan 1995: 51). So, the ship of state-owned enterprises was sinking.<sup>4</sup>

In addition, as aforementioned, the same proportion of population in rural China produced less and less food in relative terms. In 1953, China's total grain output was 177 million metric tons; in 1978, the total grain output reached 300 million tons (Cui 1997: 10, 11, 15). But this was achieved by 3–4 times increased labour input with a doubled rural population (Xie 1999: 30). Here, conceptually, the agricultural sector must have suffered diminishing returns so bad that the marginal product of labour was almost certainly negative.<sup>5</sup> More seriously, Mao's self-reliance proved to be a farce even in a sector where China had had a recognised comparative advantage from its archaic past.

By definition, low capital efficiency implies unsustainability in economic growth which shows clearly in China's business cycles and crises. Mao's regime created a false economy with pseudo-fast growth primarily through systematic distortion by the state. Such growth was fuelled by a ruthless exploitation of the general public through deliberately lowering their standards of living at the subsistence level. Maoist growth that did not serve the ordinary people. This was the origin and the cause of poverty in Mao's China. Not surprisingly, then, as poverty prevailed in society the knell of Maoism tolled soon after the tyrant's death.

---

<sup>4</sup> There can be no doubt that in the state sector the 'asymmetrical problem' and the 'principle-agent problem' loomed large. The former took the form of unrealistic and inaccurate planning; and the latter, discord and non-cooperation of enterprise managers with the ministries. Indeed, if these two problems could be solved under communism, capitalism would be replaced everywhere by communism.

<sup>5</sup> A conservative estimate suggests a rate of –0.2 per cent per year during 1957 to 1978 (Zhao 2000: 99).

## Appendix

### Growth Statistics and Estimates, 1949–66

Table i shows China's nominal growth rate and Table ii shows its real and net growth rates. Table iii is presented as a comparison where the nominal growth is even lower than in Table i.

Table i. Growth Statistics for Nominal Total GDP, 1949-66 (in billion yuan)

Year	Nominal GDP	<u>Overall growth</u>			<u>Pre-socialist and socialist growth</u>			
		Index (I)	Index (II)	Index (III)	Index (IV)	Index (V)	Index (VI)	Index (VII)
1949	35.8	100	100	—	100	—	—	—
1950	42.6	119	119	—	119	—	—	—
1951	49.7	139	139	—	139	—	—	—
1952	58.9	165	165	—	165	—	—	—
1953	70.9	198	198	—	198	—	—	—
1954	74.8	209	209	—	209	—	—	—
1955	78.8	220	220	—	220	—	—	—
					14.0%*			
1956	88.2	246	246	—	—	100	100	—
1957	90.8	253	253	—	—	103	103	—
1958	111.8†	312†	312†	—	—	127†	127†	—
1959	122.2†	341†	341†	—	—	139†	139†	—
1960	122.0	341	341	—	—	138	138	—
			11.8%*		—		8.4%*	
1961	99.6	278	—	100	—	113	—	100
1962	92.4	258	—	93	—	105	—	93
1963	100.0	279	—	100	—	113	—	100
1964	116.6	327	—	117	—	132	—	117
1965	138.7	387	—	139	—	157	—	139
1966	158.6	443	—	159	—	180	—	159
				9.7%*		6.1%*		9.7%*
<b>Nominal annual</b>			<b>9.2%</b>					

- 
- Source: Based on *China's Statistic Year Book 1983*: 13–14, 22–3; cf. ZJB 1999: 24, 40, 51, 64–5, 76–7, 99–100, 108–9, 128, 141, 155, 168–9, 181–2, 189–90, 197–8, 206, 261.
- Note: Index (I) – Overall growth (1949–66). Index (II) – First sub-period growth (1949–60). Index (III) – Second sub-period growth (1961–6). Index (IV) – Pre-socialist growth (1949–55). Index (V) – Socialist growth (1956–66). Index (VI) – First socialist sub-period (1956–60). Index (VII) – Second socialist sub-period (1961–6).  
\*Annual growth rate for sub-period.  
†Figures that were inflated under the Great Leap Forward regime with industrial inputs and outputs which had little utility or value and agricultural outputs which were boasted out of proportion.

Table ii. Growth Statistics for Nominal and Real Total GDP, 1949–66 (in billion yuan)

Year	Nominal	Index (I)	Real*	Index (II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)
1949	35.8	100	35.8	100	100		100			
1950	42.6	119	41.7	116	116		116			
1951	49.7	139	47.7	133	133		133			
1952	58.9	165	55.3	154	133		133			
1953	70.9	198	65.0	182	18		182			
1954	74.8	209	67.0	187	187		187			
1955	78.8	220	68.8	192	192		192			
							11.5%†			
1956	88.2	246	75.0	210	210			100	100	
1957	90.8	253	75.1	210	210			100	100	
1958	111.8§	312§	89.9§	251§	251§			120§	120§	
1959	122.2§	341§	95.3§	266§	266§			127§	127§	
1960	122.0	341	92.1	257	257			123	123	
					9.0%†				5.3%†	
1961	99.6	278	72.7	203		100		97		100
1962	92.4	258	65.1	182		90		87		90
1963	100.0	279	67.9	190		93		91		93
1964	116.6	327	76.0	212		105		101		105
1965	138.7	387	86.7	242		119		116		119
1966	158.6	443	94.8	265		130		126		130
						4.5%		2.3%†		5.4%†
Gross Annual			9.2%		5.9%					
Net Annual¶		6.6%		3.3%						

Source: Based on *China's Statistic Year Book 1983*: 13–14, 22–3.

Note: Index (I) – Nominal growth (1949–66).  
Index (II) – Real growth (1949–66).  
Index (III) – First sub-period growth (1949–60).  
Index (IV) – Second sub-period growth (1961–6).  
Index (V) – Pre-socialist growth (1949–55).  
Index (VI) – Socialist growth (1956–66).  
Index (VII) – First socialist sub-period (1956–60).  
Index (VIII) – Second socialist sub-period (1961–6).  
\* Conversion is based on the average inflation rate of 2.01% per year for the period of 1950 to 1978 (Li 1997: 49–50).

---

†Annual growth rate for sub-period.

§Figures that were inflated under the Great Leap Forward regime with industrial inputs and outputs which had little utility or value and agricultural outputs which were boasted out of proportion.

¶¶Net growth by discounting population growth at a rate of 2.6 per cent per year during 1952–80 (He 1994: 7).

Table iii. GDP Estimates by Wang, 1956-65

---

Year	Nominal total (million <i>yuan</i> )	Index
<hr/>		
1956	682	100
1960	1,055	155
1965	1,122	166
<b>Nominal annual</b>		<b>5.8%</b>

---

Source: Based on Wang 1999: 81; *cf.* ZJB 1999: 99–100, 155, 205.