

CHINA'S  
COMMUNIST  
REVOLUTIONS  
FIFTY YEARS OF  
THE PEOPLE'S  
REPUBLIC OF CHINA

*Edited by*  
Werner Draguhn  
and  
David S.G.  
Goodman

# China's Communist Revolutions

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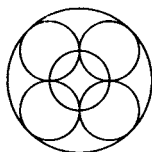
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Republic of China

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#### **Publisher's Note**

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# Contents

Preface	vi
1 Revolution and Economic Life in Republican China: From World War I until 1949 <i>Ramon H. Myers</i>	1
2 Collapse of the Old Order, Germination of the New: Chinese Society during the Civil War, 1945–1949 <i>Joseph W. Esherick</i>	23
3 The Politics of the Civil War: Party Rule, Territorial Administration and Constitutional Government <i>John Fitzgerald</i>	50
4 The Political Economy of Socialist Transition: Restructuring Inequality <i>Mark Selden</i>	82
5 China in the Wake of the Communist Revolution: Social Transformations, 1949–1966 <i>Marie-Claire Bergère</i>	98
6 The Cultural Revolution as an Economic Phenomenon <i>Robert Ash</i>	124
7 Was the Cultural Revolution Really Necessary? <i>Michael Schoenhals</i>	159
8 Economic Growth and Distributive Justice in the Post-Mao Reform Period <i>Margot Schüller</i>	177
9 China's Foreign Relations, 1978–1999: Unleashed, the Tiger Feels Lonely <i>Kay Möller</i>	208
10 Centre and Periphery after Twenty Years of Reform: Redefining the Chinese Polity <i>David S.G. Goodman</i>	250
List of Contributors	277

## Preface

The People's Republic of China (PRC) was formally established on 1 October 1949. While the Chinese Communist Party (CCP) and the PRC itself celebrated the Fiftieth Anniversary on a grand scale in Beijing, there have been a number of smaller and more academic events organised around the world. At the end of September 1999, just before the Fiftieth Anniversary, the Institute of Asian Affairs, Hamburg and the Institute for International Studies, University of Technology, Sydney, organised an academic conference in Hamburg attended by scholars from the USA, Europe, Australia and China to mark the occasion.

Rather than attempting a definitive overview or even assessment of fifty years of the PRC the aim of the conference was to encourage its participants to be somewhat more irreverent and iconoclastic than usual in their approach, both towards the study of 'Contemporary China' as it has become known as a field of academic enquiry, and towards the events that saw the emergence of the PRC and its development since 1949. Critical analysis was encouraged. Hence the more than somewhat tongue-in-cheek title of the conference: *Was the Chinese revolution really necessary?* No one was asked to tackle this question in full but rather those giving papers were invited to comment on specific aspects of revolution and change (inevitable and otherwise) during particular periods before and after the establishment of the PRC. The papers in this edited collection represent a selection from those presented at the conference, together with a final paper that was written as a direct result of discussions at the conference about social and political change in the PRC.

Contributions by Ramon Myers, Joseph Esherick and John Fitzgerald consider the economic, social and political environments out of which the PRC emerged. Mark Selden and Marie-Claire Bergère examine the socio-political impact of communist power during the 1950s. Robert Ash and Michael Schoenhals each in their different ways challenge accepted orthodoxy about the Cultural Revolution. Margot

## Preface

Schüller, Kay Möller and David Goodman present interpretations of key aspects of reform: economic structures, foreign policy and political change. Throughout, the emphasis is on change in the context of twentieth century China, and as part of the Chinese Communist Party's search for paths to development: hence the title to the collection that speaks of revolutions in the plural.

Many people were involved in the organisation and presentation of the conference in Hamburg and their considerable assistance and fortitude should be acknowledged. Academic arrangements for the event were masterminded by Sebastian Heilmann, now of the University of Trier, but then a colleague at the Institute of Asian Affairs. Staff at both the Institute of Asian Affairs, Hamburg, and the Institute for International Studies, UTS, and in particular Sandra Margon of UTS, played a crucial organisational role.

The conference was sponsored by the Thyssen Foundation, Germany, and the generosity of its support is gratefully acknowledged. At a time of disappearing social funds for academic research support and sponsorship of this kind is greatly appreciated.

Finally the success of the conference was very much the product of all those who attended and gave so generously of their time and ideas. In addition to those whose papers are presented in this collection they included Gereme Barmé, Tom Bernstein, Lucien Bianco, Feng Chongyi, Jean-Luc Domenach, Rick Edmonds, Edward Friedman, Stefan Friedrich, Merle Goldman, Bettina Gransow, Thomas Heberer, Sebastian Heilmann, Hans Hendrichske, Barbara Krug, Roderick MacFarquhar, Rüdiger Machetzki, Minxin Pei, Pitman Potter, Eberhard Sandschneider, Monika Schädler, Günter Schucher, Chih-Yu Shih, Dorothy Solinger, Brunhild Staiger, Markus Taube, Andrew Walder, Wei Hongyun, and Benjamin Yang.

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# Revolution and Economic Life in Republican China: From World War I until 1949

*Ramon H. Myers*

The collapse of the Qing dynasty in 1911 left a leadership vacuum that was not filled until Mao Zedong announced on October 1, 1949, at Beijing's Tiananmen Square the creation of a Chinese socialist state, thus unifying China. Different ideas for organizing China's political center had competed over this long period. But of all these competing ideas, only Mao Zedong's 'thought' successfully convinced a majority of Chinese elites that a CCP-led revolution could remove the grand obstacles – feudalism, capitalism, and imperialism – preventing China from building that 'great commonwealth of harmony, virtue, and prosperity', the *datong*. The power of ideas, particularly those of Mao, inspired enough Chinese from all backgrounds to participate in the revolution led by the Chinese Communist Party (CCP).

But ideas were not enough for this revolution to succeed. There had to be new policies and organizations that altered China's economic life to persuade the Chinese people to join that revolution and unify China under a new system of governance and way of economic life. How did China's economic life between World War I and the end of the civil war interact with revolution?

## China's Three Economies

A society's economic life can be understood by examining how three types of economies have competed and coexisted with each other un-

til modern times.<sup>1</sup> Space does not allow a detailed account of China's economic history to describe these interactions. It is only important to mention their characteristics to better understand how they reflected economic life during the Republican era (1911–49). First, China's customary economy had always exceeded in size and activity two other economies, the command and market economies. In the customary economy, households exchanged resources and produced goods and services for direct household consumption. They typically did this without reference to the market-determined values of exchange of the market economy. In effect, custom or habit dictated family or lineage households, as well as village exchanges, which consisted of oral or written agreements-contracts, if you will. Because 90–95 per cent of China's population lived in rural communities and small towns, the majority of these people spent much of their daily economic life exchanging resources with each other for organizing the production of goods and services consumed within the household, village, or market town.

This customary economy merged with a market economy, where organizations produced goods and services for a profit. China's market economy had always expanded and contracted, yet inexorably growing with different scale and activities. By the eighteenth century, and perhaps for the first time, a national market economy distributed the empire's rice, cotton, silk, tea, etc. Some scholars have conceptualized this market economy as being 'reticular'.<sup>2</sup> That is to say, instead of firms organizing complex, large-scale economic activity in multiple markets like the 'plexus' market economy in premodern Western Europe and Tokugawa Japan, the Chinese reticular market economy was made up of family-organized organizations operating on a small scale, having few if any differentiated activities, not integrating with other market activities, and having brokers connect sellers to buyers. In China, the reticular market economy was more advanced in the three large core areas of the northern, east-central, and southeastern coastal provinces than in the interior, developing provinces.

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<sup>1</sup>These three types of economies are discussed in John Hicks, *A Theory of Economic History* (Oxford: Oxford University Press, 1969), chapter 2.

<sup>2</sup>A discussion of these concepts can be found in Ramon H. Myers, 'State, Market, and Economic Organizations in Chinese Economic History: A Discussion of Problem and Methodology', in *Zhongyang yanjiuyuan jindaishi yanjiusuo, Guo tingyi xiansheng zhidanzen jinian lunwenji* [A Collection of Essays Commemorating the Birthday of Guo Tingyi] (Taipei: Institute of Modern History, Academia Sinica, 1995), vol. 1, pp. 371–398.

Finally, there was the command economy administered by a political center and its bureaucracy, which extracted tax revenue, labor services, and resources at prices that bore no resemblance to market exchange prices. Various kinds of state bureaucracies had experimented with land tax systems, monopolies, and the taxing of the huge maritime industry. In the early Ming period, the command economy was unusually large and mobilized *corvée* labor, collected grain tribute, and operated a large salt monopoly. In early Qing, the command economy at first relied on *corvée* labor but later gave up that practice and downsized to extracting activities by tax farming.

As population grew and people migrated to the hinterland or abroad during the eighteenth century, the customary and market economies expanded in scale and activity. Their expansion slowed in the second quarter of the nineteenth century when severe deflation began enveloping many regions. A massive outflow of silver to countries like India and Europe caused the decline in commodity and service prices.

This price deflation devastated the market economy because it reduced household income, caused enormous unemployment, increased rents and taxes, and made for an acute sense of uncertainty. Markets did not clear, and their number declined, causing a national market failure. By the 1850s, rebellions swept across China and further reduced the quality of economic life.

From 1840 until 1911, when the Qing dynasty collapsed, the unequal treaties imposed by the foreign powers brought foreign investment and new trade to the port cities along the coast and the Yangtze River. These foreign funds, along with Chinese merchant wealth, financed a small-scale manufacturing and services sector to take off in this market economy. Along with railroads and Western-style ships, a new transportation system began, connecting the coastal provinces to the world economy and transforming China's market economy. New businesses engaged in flour milling, food processing, weaving cloth with imported, machine-made yarn, match making, indigo processing, and much more. These new activities upgraded the handicraft industry and commercialized the village customary economy.

More research will elucidate the impact of this new market economy on the customary economy. But this much can be conjectured: Where commercialization prospered, lineages and customary society very likely flourished, but not always, particularly if lineages sold their common land and property to commercial developers when commercial agriculture and handicraft, long the source of rural prosperity,

were in decline. Whatever the complex outcomes between the new market economy and the entrenched customary economy, China's revolution began altering China's economic life after World War I.

## Economic Life between World War I and the Conclusion of the Civil War

The traditional view of China's economic development during the interwar years is that the production of goods and services on a per capita basis rose by less than 10 per cent, thus, for all practical purposes, nearly stagnating.<sup>3</sup> Agriculture contributed around 60 per cent to the nation's output and supported roughly 80 per cent of the population. China had traditionally produced enough foodgrain to feed itself, but now, when harvests failed, foodgrains had to be imported. Services and manufacturing, in this view, each contributed roughly 20 per cent of China's gross domestic product in 1933, with the traditional, labor-intensive organizations making up these two sectors contributing not only a larger share of value-added output but employing more labor than the modern sector. Although the small modern sector described above had expanded during and after World War I, it still contributed only a small share of gross domestic product. Most of China's population, which totaled nearly a half billion people by the mid-1930s, still farmed and had not experienced a modern seed/fertilizer revolution. This was the conventional view of how China's economy developed in the first three decades of the twentieth century.

In 1989 Thomas G. Rawski challenged this view (see Table 1.1). He provided new estimates of a higher growth of output per person for the interwar period. Rawski argued that traditional handicrafts and services grew more vigorously than believed and that agricultural output also had expanded more rapidly than population. He concluded that real per capita output grew by 22–24 per cent. His findings implied an annual rate of per capita growth of 1 per cent, a rate nearly comparable to Japan's annual growth rate of 1.3 per cent between 1917 and 1930. Two new developments tend to support Rawski's findings, and other studies appearing in recent years tend to validate Rawski's work.

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<sup>3</sup>See Albert Feuerwerker, 'Economic Trends, 1912–49', in John K. Fairbank (ed.), *The Cambridge History of China: The Republican Period* (Cambridge: Cambridge University Press, 1983), vol. 12, part 1, chapter 2.

**Table 1.1: Estimates of mainland China's economic growth for select years, 1914/18–1952 (1914/18 = 100)**

Period	Gross Domestic Product (GDP)	Percentage Change	Annual Growth Rate (%)	GDP per Capita	Percentage Change	Annual Growth Rate (%)
1914/18	100.0	–	–	100.0	–	–
1931/36	140.0	40	2.0	122.8	23	1.2
1946	132.0	-6	-0.6	110.6	-11	-1.1
1949	119.0	-10	-3.2	97.4	-12	-3.9
1952	166.0	39	11.6	145.3	49	14.5

Source: Thomas G. Rawski, *Economic Growth in Prewar China* (Berkeley: University of California Press, 1989), p. 336.

First, the spread of commercialization by an expanding market economy made it possible for households to engage in greater specialization of production for industrial and food crops. That development in turn increased the returns to labor, thus contributing to the rise of labor productivity in agriculture. Second, there occurred a gradual spread of new technology and equipment into those areas surrounding the modernizing port cities, especially the three core areas of the coastal provinces, which helped to raise labor productivity in farming and handicraft. Loren Brandt, for example, concludes that 'by the 1930s, more than 40 per cent of all farm households in Central and East China were using commercial fertilizers'.<sup>4</sup>

Although Rawski only estimated rates of growth for the robust economic activities for which he could find data, other research findings suggest that farm output grew more rapidly than population. Loren Brandt's estimates for agricultural output in central and east China between 1870 and 1937 suggest an annual increase of 'more than two times the estimated rate of population growth of 0.6 per cent per annum, only modestly below the rates of output growth achieved in Japanese agriculture over the same period'.<sup>5</sup> David Faure's study of Jiangsu and Guangdong provinces between 1870 and 1937 sug-

<sup>4</sup>Loren Brandt, *Commercialization and Agricultural Development: Central and Eastern China, 1870–1937* (Cambridge: Cambridge University Press, 1989), p. 179.

<sup>5</sup>*Ibid.*, p. 178.

gests that agricultural commercialization intensified in these provincial economies, positively altered tenant and landlord relations to increase land and labor productivity, and probably increased per capita output in agriculture over the period.<sup>6</sup> Ramon H. Myers' study of Hebei and Shandong provinces from 1890 to 1937 argues that an expanding commercialized agriculture enabled farming communities to have a stable per capita income and supply a larger market surplus to the urban sector, which then produced more goods and services for the domestic market and international economy.<sup>7</sup>

As China's market economy rapidly grew during the interwar period, a small subsector of that process I will call the 'modern market economy' also began to take off. By *modern market economy* I am referring to the small cluster of enterprises that operated modern factories, service companies, and transport while using electricity as power and applying modern science and technology to produce for a mass market. This subsector, always small during the period under discussion, declined after 1937.

By 1937, new forms of a command economy had emerged in the east-central region controlled by the Nationalist government, led by the Guomindang (GMD), and in the border areas of Shaanxi, Ningxia, and Gansu provinces governed by the CCP. The GMD established large bureaucracies to promote industrialization, whereas the CCP experimented with cooperatives to increase cultivated land and crop yields.

The Sino-Japanese war, which began on July 7, 1937, further altered the relationships between these three types of economies and radically changed economic life. The most important change was the decline in production of goods and services and per capita consumption. The war destroyed bridges, roads, harbors, mills, and factories and reduced market activity between the coastal cities and their marketing areas. Foreign trade declined, and inflation erupted.

In 1940, the market economy further fragmented because China now had three different political regimes: the Nationalist government, which controlled Sichuan and the southwest provinces; the CCP, which controlled the base areas in Northwest and North China;

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<sup>6</sup>David Faure, *The Rural Economy of Pre-Liberation China: Trade Expansion and Peasant Livelihood in Jiangsu and Guangdong, 1870 to 1937* (Hong Kong: Oxford University Press, 1989).

<sup>7</sup>Ramon H. Myers, *The Chinese Peasant Economy: Agricultural Development in Hopei and Shantung, 1890-1949* (Cambridge, Mass.: Harvard University Press, 1970), pp. 284-285.

and the Japanese military and various collaborationist forces, which controlled the main coastal cities, their environs, and sections of the lower Yangtze River. Although these political authorities tried to revive markets, their appetites for war caused severe commodity, food, and raw material shortages.

According to Table 1.1, output sharply declined during 1937–1940, when Nationalist forces abandoned Wuhan, moved to the southwest region, and made Chungking the capital of Free China. The Nationalist, Communist, Japanese, and collaborationist authorities began controlling different territories of China, and China was no longer unified under the Nanjing regime. Each of these regimes tried to revive production and market exchange, aided by a lull in the military conflict. The 5–6 per cent decline in the production of goods and services and per capita consumption does not seem unreasonable, and households adjusted accordingly by devoting more resources to the customary and command economies.

When the war ended on August 15, 1945, the Nationalist government and the majority of the Chinese people believed that economic recovery would soon commence. The fall harvest improved, domestic trade increased, and consumer spending rose. By the spring of 1946, the population realized that the enlarged civil war would not be settled soon. Reactions to this realization were the following: Commodity hoarding increased, labor strikes ballooned, and student demonstrations broke out. As the civil war disrupted domestic trade, the large cities in the northeast and north had to import food and raw materials from within China or abroad in order to survive.

The large-scale fighting in North and Northeast China separated the northern and southern regional market economies. Prices of food and industrial materials were higher in the northeast and northern cities than anywhere else in the country. The supply response in these regions was more inelastic than in other regions because CCP forces had destroyed communications, transport, and marketing facilities to prevent villages from sending their foodgrains and industrial crops to the cities. The severe foodgrain and raw material shortages in the cities caused deepening urban unemployment, idle factories and mills, and immense human suffering. Output and per capita consumption plunged sharply. With the tax base shrinking and peace unlikely, the Nationalist government could only print more paper money to finance its war against the communist military forces; the inflation rate that had increased during 1937–1945 became hyperinflation after late 1945 (see Table 1.2).



**Table 1.2: Indicators of mainland China's inflation in nationalist territories, 1939–1948**

Year	Nationalist Government Expenditures (\$CNC million)	Nationalist Government Revenues (\$CNC million)	Nationalist Government Deficit (\$CNC million)	Notes Issued (\$CNC million)	Estimated Interyear Land Tax Revenues (\$CNC million)	Wholesale Commodity Price Index (December, all Nationalist territories)
1939	2,797	740	2,057	1,980	—	100
1940	5,288	1,325	3,963	3,580	—	262
1941	10,003	1,310	8,693	7,230	2,731	690
1942	24,511	5,630	18,881	19,300	19,712	2,001
1943	58,816	20,403	38,413	41,000	46,446	7,293
1944	171,689	38,503	133,186	114,100	147,446	22,218
1945	2,348,085	1,241,389	1,106,696	842,400	188,604	69,483
1946	7,574,790	2,876,988	4,697,802	2,694,200	624,675	—
1947	43,393,895	14,064,383	29,329,512	29,462,400	3,013,899	—
1948	655,471,087	220,905,475	434,565,612	163,332,800	—	—

Source: These data have been selected from various tables in Chang Kia-ngau, *The Inflationary Spiral: The Experience in China, 1939–1950* (Cambridge, Massachusetts: MIT Press, 1958), chapters 2 and 4. There is no reliable wholesale commodity price index for Free China after 1945. The Shanghai price index from June 1946 to August 1948 increased from 378,217 to 558,900,000, or 148 times, indicating hyperinflation. For more recent estimates of inflation throughout China, see Zhou Chun (chief editor) and Jiang Hesheng (deputy editor), *Zhongguo kangri zhanzheng shiqi wujiashi* (A history of prices in China during the anti-Japanese war period) (Chengdu: Sichuan daxue chubansh, 1998).

Inflation's insidious effects on China's income distribution impoverished those on fixed incomes and rewarded those whose income rose with prices. The Nationalist government indexed officials' salaries to keep pace with inflation, but the real income of subprovincial officials and low-ranking military personnel drastically declined, along with their morale and performance. In 1947, the Nationalist regime made a final attempt to control inflation by arresting prominent businessmen in Shanghai on charges of hoarding goods and replacing the wartime currency with the new gold yuan note, but these measures failed to stop hyperinflation.

The shortage of raw materials ruined the urban economy's handicraft manufacturing establishments. Between 75 to 85 per cent of these factories in cities and towns employed up to thirty workers and used little electrical energy and machinery. More and more of these establishments (*zuofang*) went out of business after 1945.<sup>8</sup>

<sup>8</sup>Peng Zheyi (ed.), *Zhongguo jindai shougongyeh shi zuliao (1849–1949)* (Materials on the history of handicraft in modern China, 1849–1949) (Beijing: Xinlian shidian, 1958), p. 557.

The Nationalist government tried to help these handicraft enterprises with the Industrial Cooperative Association (ICA). Set up in 1938 to increase the supply of manufactured goods, the ICA tried to promote industry in cities and villages. Operating in seventeen provinces, the ICA had 1,738 associations with 25,683 workers who produced cotton textiles and engaged in oil pressing, printing, and so on.<sup>9</sup> In early 1946, however, more than two-thirds of the ICA's associations had gone out of business, leaving only 336.

In Wuxi city of Zhejiang province, an area not severely damaged by fighting, its seventy-eight prewar cotton cloth manufacturing establishments had declined to sixty-one by 1948. Zhejiang province's silk manufacturing industry also declined, mainly because 2,600,000 *mu* for growing mulberry trees had shrunk to 995,368 by 1947. To the north, in Qingdao city of Shandong province, nearly all of the 140 cotton cloth-producing establishments had ceased to operate by 1946 because of the scarcity of cotton.<sup>10</sup>

Urban handicraft and services declined after 1937 because rural families, unable to purchase the goods they needed, supplied less to the market and produced more for subsistence. Market disruption convinced villagers that their best strategy for survival was to cut back the planting of industrial crops and expand the sown area for foodgrains (see Table 1.3). This reallocation of resources, reflecting villagers shifting from the market to the customary economy, occurred most dramatically in North and Northeast China where considerable warfare had disrupted the market economy.

The sown-area estimates in Table 1.3 are based on official Nationalist government estimates and contain a large margin for error. Even so, these same trends are reflected in data for cotton cultivation along the Beijing-Hankow railroad as collected by Japanese researchers. They found that in 1940 the cultivated area for cotton, compared to the average cultivated area for the years 1932–1937, had declined by 47 per cent.<sup>11</sup> Note in Table 1.3 that by 1948 the sown area for cotton in twelve provinces had declined 37 per cent from 1937. In Shanxi, cotton sown area declined 47 per cent between 1937 and 1948, whereas in Hebei the decline for the same period was 68 per cent. Although Shandong cotton sown acreage fell 29 per cent between 1937 and 1947, by 1948 it had nearly recovered the 1937 level.

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<sup>9</sup>Ibid., p. 550.

<sup>10</sup>Ibid., p. 480.

<sup>11</sup>Kōain, 'Kahokusho kyōkan ensenmenka jijō chōsa' (A survey of cotton production conditions along the Beijing-Hankow railway in North China), *Chōsa geppō* 3, no. 8 (August 1942): 3.

**Table 1.3: A comparison of the sown area for cotton and wheat in four north China provinces, 1937-1949**  
(1,000 *shi-mu*)

Year	Cotton					Wheat			
	Shan-dong	Hebei	Shanxi	Honan	Twelve Prov- inces*	Shan-dong	Hebei	Shanxi	Honan
1937	5,375	13,852	2,287	9,241	59,316	43,391	21,803	15,983	49,071
1940	1,426	3,858	351	2,415	28,274	—	—	—	—
1943	3,394	4,362	616	2,013	27,460	—	—	—	—
1945	—	—	—	—	—	—	—	—	—
1946	1,651	3,621	595	2,463	22,800	52,727	19,393	18,307	65,343
1947	3,840	4,320	1,218	—	38,861	37,367	—	18,384	42,507
1948	5,176	4,475	1,220	—	37,120	—	—	—	—
1949	—	—	—	—	—	54,287	20,880	16,456	—

\* Jiangsu, Zhejiang, Anwei, Jiangxi, Hubei, Hunan, Sichuan, Hebei, Shan-dong, Shanxi, Honan, and Shaanxi

Source: Xu Daofu (ed.), *Zhongguo jindai nongyeh shengchan ji maoyi tongji zuliao* (Statistical materials on modern China's agricultural production and trade) (Shanghai: Renmin chubanshi, 1983), chapters 2 and 4; for the twelve cotton-growing provinces, see p. 209.

Meanwhile, foodgrain production in North China increased in these same years as indicated by that important foodgrain, wheat. Other foodgrains show a similar trend.<sup>12</sup> In the past, North China's multiple cropping system had enabled households to harvest three crops every two years from the same unit of land. But that cropping system only could be sustained by households applying large quantities of labor to prepare the soil, produce and apply sufficient fertilizer, weed, and irrigate. For these reasons, the annual harvest was always affected by the available supply of labor and animal power. But where males had been conscripted by military forces and villagers had lost their livestock, villages were unable to maintain the same sown area and yields of the past.<sup>13</sup> Therefore, the harvest output declined.

After 1890 prices for special crops rose faster than for foodgrains. Rural households responded to these relative price changes by applying more labor and expanding the sown area to marketing crops. This reallocation of resources produced rising returns to labor. Households

<sup>12</sup>Xu Daofu, *Zhongguo jindai nongyeh shengchan ji maoyi tongji zuliao*, chapter 2.

<sup>13</sup>Ramon H. Myers, *The Chinese Peasant Economy*, pp. 286-287.

also gained from the favorable terms of trade. The farm commodities sold exceeded those they purchased from the market. The missing ingredient in this development story was a seed/fertilizer revolution like that produced by the state in Meiji Japan and Taiwan.

Meanwhile, during the 1930s, Nationalist government research laboratories and extension stations developed new drought- and disease-resistant rice and wheat seeds. Some of these seeds were introduced in the southwestern provinces just before World War II ended, but the civil war made it impossible to expand significantly their use by farmers. Not until the civil war ended were these new hybrid wheat and rice seeds distributed to the farmers of the north and southern provinces. For the first time in Chinese economic history, a modern seed revolution began taking place.

## New Forms of the Command Economy

Long before Japan invaded China, the founding fathers of both the GMD and the CCP believed that the Chinese state must be the agency for making the economy productive, the society prosperous, and the nation strong. The state, therefore, had to expand its command economy, where exchange values bore no relationship to market values and were to be determined by the state bureaucracy. In the decade before the Japanese invasion, the Nationalist government created new bureaucratic agencies to launch China's industrialization. Those agencies adopted import substitution policies by protecting new state industries by subsidies, taxes, and discriminatory pricing. In 1932, the National Defense Planning Commission (*Guofang sheji weiyuanhui*; renamed the National Resource Commission [*Guoji zuyuan weiyuanhui*] in 1935) began planning the establishment of defense-related industries.<sup>14</sup> It decreed that China's ores and minerals be exchanged with Germany for complete manufacturing plants and the training of Chinese personnel to operate them. With this new capital and a skilled labor force, Nationalist China began manufacturing modest amounts of steel, copper, machines, and electrical products.<sup>15</sup> The commission

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<sup>14</sup>William C. Kirby, 'Engineering China: The Developmental State, 1928-37' (unpublished paper). See also his 'Technocratic Organization and Technological Development in China: The Nationalist Experience and Legacy, 1928-1953', in Denis Fred Simon and Merle Goldman (eds), *Science and Technology in Post-Mao China* (Cambridge, Mass.: Council on East Asian Studies, Harvard University, 1989), pp. 29-35.

<sup>15</sup>*Ibid.*

also took over the planning and building of new industries in South-west and Northwest China. Its staff, made up of many engineers and technicians, rapidly expanded. In 1949 some of these personnel fled to Taiwan and served in state enterprises, but the majority remained and joined the Planning Commission of the People's Republic of China.

By 1936, then, the Nationalist government, using new forms of a planned economy to supplement the market economy, was extracting resources and building manufacturing industries. Meanwhile, the CCP-controlled government in the northwest was reclaiming land and increasing foodgrains and industrial crops to support its cadres and military forces. The CCP first carried out land reform in the districts around Yan'an, the new CCP capital. They then installed new village leaders and councils and persuaded villages to adopt cooperatives to increase agricultural production.

After 1937 the CCP set up new bases in the Taihang mountain region bordering Shanxi, Hebei, and Chahar and in the border areas of Shanxi, Hebei, Shandong, and Henan. Fearful of pushing land reform in areas of minimal military control, the CCP instead lowered land rents and interest charges in an effort to win widespread village support. In zones protected by CCP military forces, CCP government departments organized local elections, drafted plans for collecting village tax quotas, and set targets for foodgrain and cotton output for its military units, schools, training centers, and government departments. CCP work teams also encouraged towns and villages to establish co-operative organizations to produce consumer goods, food, and raw materials.

One historian explains how the CCP succeeded in carrying out these activities while winning popular support in its base areas: 'What enabled the Communists to survive and grow was the combination of military-political control and popular support, but expressed in interlocking organizational structures reaching down (at least in consolidated bases) to the village level'.<sup>16</sup> These interlocking structures, embodying the embryonic forms of a command economy, were promoted by a village leadership core using different institutions and organizations from those of the past.

From Qing times to the second quarter of the twentieth century, village council members typically came from leading lineages and fam-

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<sup>16</sup>Lyman Van Slyke, 'The Chinese Communist Movement during the Sino-Japanese War, 1937-1945', in John K. Fairbank and Albert Feuerwerker (eds), *The Cambridge History of China*, Vol. 13: *Republican China, 1912-1949*, part 2 (Cambridge: Cambridge University Press, 1986), p. 651.

ilies.<sup>17</sup> This pattern changed when strong men, local bullies (*tuhao*), and opportunists gained control of villages. The traditional village council members had tried to protect the interests of villagers by operating according to two general principles:<sup>18</sup> First, to facilitate households' contracting with one another, whether in verbal or written form, and mediate any disagreements arising over those contracts. Such contracts covered many situations: adopting a child, arranging a marriage, dividing a corporate estate, engaging a tenant, working as a hired hand, extending or receiving credit, arranging funerals, and so on.<sup>19</sup> Those customary exchanges helped households to survive and develop strategies for preserving, expanding, or dividing their corporate estates over their life cycles.<sup>20</sup> Managing a household's corporate estate required the practicing of ancestor worship, maintaining the solidarity of the family and its kinship structure, and acquiring social prestige for the family and lineage.<sup>21</sup> All those activities required the family's close cooperation.

The second council function was to protect villagers from the excessive demands by outside authorities such as officials, gentry, military forces, and so on. For example, whenever local officials levied new taxes on villages, as occurred throughout North China after 1911, the village council tried to distribute the tax so that rich and poor households alike shared the burden proportionate to the amount of land owned and farmed.<sup>22</sup>

In the villages and village councils, Confucian beliefs and ideas extolling ancestor worship were manifest for building the household's corporate estate, eventually to be divided between male heirs (*fen-jia*). The traditional value of *bao* (giving in order to obtain a return

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<sup>17</sup>These customary exchanges or contracts are described in Ramon H. Myers, *The Chinese Peasant Economy*. See in particular *Chûgoku nôson kankô chōsa* [Investigations of Rural Customs in China's Villages] (Tokyo: Iwanami Shoten, 1952-1957, 5 vols.) for factual information on these customary exchanges or contracts.

<sup>18</sup>Myers, *Chinese Peasant Economy*, p. 259.

<sup>19</sup>For examples of households contracting with each other over the evolution of their household cycle, see Fu-mei Chang Chen and Ramon H. Myers, 'Customary Law and the Economic Growth of China during the Ch'ing Period', *Ch'ing-shih wen-t'i*, vol. 3:5 (November 1976), pp. 1-33, and vol. 3:10 (Dec. 1978), pp. 4-27.

<sup>20</sup>For the classic statement on the developmental cycle as households managed their corporate estates, see Myron L. Cohen, 'Developmental Process in the Chinese Domestic Group', in Maurice Freedman (ed.), *Family and Kinship in Chinese Society* (Stanford, Cal.: Stanford University Press, 1970), pp. 21-36.

<sup>21</sup>See Francis L. K. Hsu, *Under the Ancestors' Shadow: Kinship, Personality, and Social Mobility in China* (Stanford, Cal.: Stanford University Press, 1971).

<sup>22</sup>See Myers, *Chinese Peasant Economy*, chap. 16.

from another person or household) motivated individuals and families to invest in gift-giving and favors the development of personal networks for mutual benefit.<sup>23</sup> Another important Confucian value emphasized self-pride and dignity (*mianzi*). To guarantee self-pride, one constantly sought the esteem of others and worried how others evaluated oneself.<sup>24</sup> For eliciting esteem and avoiding disappointing others, particularly ancestors, family members, and neighbors, villagers worked hard, maintained family solidarity, and tried to become wealthy and acquire higher status. The household or family was also an engine for mobilizing human energy to expand its corporate estate. Those rules or principles guided the Chinese people in their exchanges and contracts with others.

Village councils also maintained village harmony and order by enforcing contracts and mediating contract disputes. The supply of public goods such as wells, village boundary markers, or roads and bridges often were lacking because families only concentrated on managing their own affairs. Village council members hesitated to mobilize resources to expand the supply of public goods because they feared being rebuked or criticized by friends and neighbors. Only if a severe crisis overwhelmed did the village council members take action, but only if they thought they had majority support. Family-household interests took precedence over those of the village.

To alter this village behavior, the CCP authorities had to access the village power center and change the rules of the game. The CCP wanted villagers to produce more public goods and undertake collective actions that could increase production; it also needed village labor to help the communist military forces. For the CCP to have its agenda adopted, it had to change village elite and popular perceptions about the importance of customary law and preserving harmony and order. The CCP could either co-opt village councils or replace them with its supporters, thus enabling the party to mobilize villagers and their resources through some form of command economy comprising mutual aid teams to reclaim land, build irrigation projects, expand sown area, manage animal husbandry, and transport materials to the CCP's military forces.

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<sup>23</sup>Yang Lien-sheng, 'The Concept of *bao* as a Basis for Social Relations in China', in John K. Fairbank (ed.), *Chinese Thought and Institutions* (Chicago: University of Chicago Press, 1957), p. 291.

<sup>24</sup>This internalized norm is discussed in Thomas A. Metzger, 'Some Ancient Roots of Modern Chinese Thought: This-Worldliness, Epistemological Optimism, Doctrinality, and the Emergence of Reflexivity in the Eastern Chou', *Early China* 11/12 (1985/87), pp. 89-117.

In different ways, then, CCP work teams tried to influence the thinking of village councils and leaders and urge them to adopt a new public ethic. CCP work teams and militia easily persuaded village council members and the headman to assist the CCP forces when the Japanese military brutally mistreated rural people. The story was different to wage war against the Nationalist government, the new enemy. To change village institutions and rules, the CCP resorted to a new strategy, which evolved in stages.

As early as 1935–41, the CCP had brought under its control thirty-seven counties in the northwest border area and made Yan'an the capital. In this remote area, the CCP had imposed land reform and removed the old village elites from power, replacing them with councils of its choosing and eventually electing peasant associations to govern villages.<sup>25</sup> Communist authorities then pressed village councils to adopt cooperative and team farming.<sup>26</sup>

In the next stage, from 1937 to 1945, the CCP expanded their bases in North China by sending work teams to villages and explaining the party's policies for fighting the Japanese and seeking the people's help. These teams also heard household grievances against their patrons – local elites and wealthy villagers – who they believed had exploited and cheated them over land rents and interest charges for loans. The CCP intervened by assigning lower land rents and interest charges, which won much popular support.

Until the CCP arrived, the Chinese had viewed their world as a hierarchy, with the gentry and better-off lineages at the top, followed by farmers, artisans, brokers and merchants (the vast majority); the bottom rank was held by the disadvantaged and the lowly: entertainers, prostitutes, peddlers, beggars, and households lacking male labor. The CCP work teams, trained in simple Marxian socioeconomic categories, managed to convince many villagers that their wealthy, privileged patrons were exploiting them in an unjust market economy. As villagers' worldview meshed with that of the communist cadres, many became eager to settle accounts with their former patrons, especially

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<sup>25</sup>Pauline E. Keating, *Two Revolutions: Village Reconstruction and the Cooperative Movement in Northern Shaanxi, 1934–45* (Stanford, Cal.: Stanford University Press, 1997), pp. 65–75. See also Mark Selden, *The Yen'an Way in Revolutionary China* (Cambridge, Mass.: Harvard University Press, 1971), pp. 80–94; for the role of peasant associations, see pp. 131–136.

<sup>26</sup>*Ibid.*, chapters 7–8. According to Keating, team farming was adopted more readily in Yanshu counties than in the Suide region because of greater land availability and a smaller land-to-labor ratio. Between 1942 and 1945, about 25 per cent of Shaan-gan-ning's labor force participated in some form of organized team work for at least one season (Keating, p. 238).



when they were perceived as Japanese or Nationalists collaborators. Thus the CCP's view of society resonated with that of many villagers whose grievances originated in customary contracts that had turned acrimonious. Those villagers who saw that they could improve their contracts under the CCP's program of lowering land rents and interest charges became CCP supporters. Lower land rents and interest charges redistributed income and enabled some households to improve their economic conditions.

Finally, in the third phase, 1945–1949, the CCP called for land reform in its base areas and extending into the territories recovered from the Japanese and Nationalists. This new policy, like that in Yan'an in 1935–1941, relied on several approaches to facilitate the CCP's takeover of the village power centers and impose its control on villages.

In one approach CCP work teams urged villagers to 'settle accounts' with the traitors who had consorted with the enemy and with village elites.<sup>27</sup> The miscreants were humiliated at public gatherings, and their property confiscated. Often they were killed, sometimes brutally. Another approach was for village tenants to survey all household land and wealth and fine those who had not paid their full taxes or had reneged on their customary exchange contracts. To pay these fines, household sold most or all of their assets, which were then distributed among the villagers. Finally, the CCP classified households into the socioeconomic categories used for its land reform program and agrarian law. Landlord households were dispossessed of their wealth, and their land redistributed among poorer families.

The CCP work teams then installed new leaders, who quickly organized peasant associations to manage village affairs and introduced far-reaching changes in the socioeconomic status and relationships of households. Families who had built up their corporate estates over one or two generations saw their wealth disappear in a moment, whereas families who were down on their luck or had previously divided their estates acquired some assets to farm. Most importantly, the new peasant associations hand-picked by the CCP now governed. They initiated mutual aid teams and promoted a variety of cooperative and association activities.

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<sup>27</sup> These different approaches can be found in David and Isabel Crook, *Revolution in a Chinese Village: Ten Mile Inn* (London: Routledge & Kegan Paul, 1959), chapter 8. See also William Hinton, *Fanshan: A Documentary of Revolution in a Chinese Village* (Berkeley: University of California Press, 1966), chapters 12–16.

**Figure 1.1:**  
**Embryonic Forms of the Command Economy in**  
**Communist Base Areas, 1935–1949**

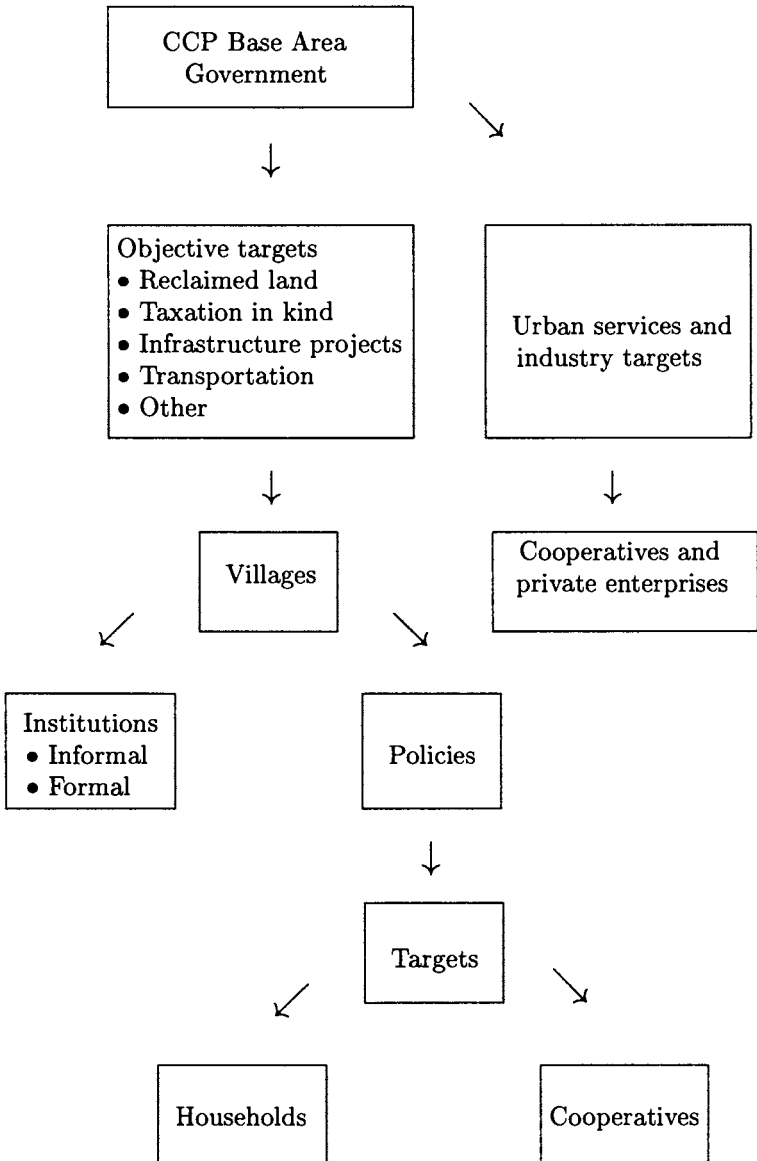


Figure 1.1 is a schematic construct of how the CCP linked up with households during these three stages. The key was penetrating the village power centers and changing the basic institutions (rules) by which village headmen and councils had managed their villages. Through land reform, the CCP created a new village leadership made up of the peasant association. During the anti-Japanese war (1937–45), the CCP trod lightly in its North China base area, but as its links with households were established, the CCP created new forms of cooperative activity. Some of these activities – reclaiming land, extending irrigation, and weeding and fertilizing – did increase returns to scale.

In the base areas, CCP-led governmental departments estimated the quantities of materials needed by the party and military.<sup>28</sup> They then communicated these targets to villages, towns, and county seats through work teams. These teams interacted with village councils and leaders to organize households into mutual aid teams or cooperatives or both while exhorting families to increase production. Leading officials in towns and the county seat also organized cooperatives in handicraft and services. Only in Yan'an, however, cooperatives and farming teams already had been organized in large numbers, but their number varied according to district circumstances.

While fighting the Japanese, the CCP was able to persuade many village leaders to develop cooperative-type organizations and encourage households to expand production. But to fight the Nationalists, the CCP turned to land reform to mobilize village support. The CCP peasant association represented a new unit of power in the village. As the transmission belt connecting the villages to the townships and district seats controlled by CCP cadres, it acted to establish village schools, organized women, etc. Whenever the CCP wanted villages to adopt new policies, it looked to the peasant association to promote them.

## The Embryonic Urban Command Economy

By mid-1948 the CCP controlled 586 cities, including district cities and towns, the majority of which were located in Northeast China.<sup>29</sup>

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<sup>28</sup>Suzanne Pepper, *Civil War in China: The Political Struggle, 1945–1949* (Berkeley: University of California Press, 1980), p. 332.

<sup>29</sup>Wei Hongyun (chief editor), Xing Guang, and Bo Shangwen (deputy editors), and Gao Defu, Zhang Hongxiang, and Zhang Lisheng (editors), *Kangri zhanzheng shiqi puchi jinchaji bianchu zaizheng jingjishi zuliao xianpien xuanbian* [A Com-

The largest cities were Harbin (760,000 persons) and Kalgan (200,000 persons). Just as the CCP at first had tolerated private property in the village economy, so in Kalgan, under the party's New Democracy rules, did its cadres abolish and restructure monopolies but permit public and private organizations to exist. The CCP also moved to co-opt labor unions and reorganize them under its control. They did this by initiating 'struggle campaigns' against owners and their managers and demanding from them monetary reparations for increasing workers' wages. The workers' union then elected leaders favoring the CCP to bargain with enterprise owners and managers.

The CCP policies used in Kalgan became the standard and were used in other cities retaken from Nationalist control after 1946. At first the party permitted the unions to champion wage increases against their employers during the initial 'struggle' campaign, causing production to sag. But the party soon learned its lesson and switched to increasing production as its main task. The party also wanted recaptured cities to promote modern manufacturing 'with emphasis on public enterprises, private enterprises, and handicraft production, in that order'.<sup>30</sup> Meanwhile, Mao urged CCP members to make modern manufacturing a priority, another aspect of the command economy mentality shared by high-level CCP leaders.

The northeast's top party leader, Gao Gang, drew up plans for the publicly managed enterprises and set their production targets. Plans were also made to develop the region's transportation and to set its agricultural output targets. The northeast was the first region to introduce rural cooperatives in large numbers and expand the number of firms manufacturing heavy industrial products. In effect, the northeast became *the* 'socialist' model for the rest of the country.

Under the party's new policy, 'cities were to lead the countryside'. An urban command economy was gradually forming and replicated in the coastal and hinterland cities. In 1948 the CCP began retaking cities in the north from the GMD. After communist troops occupied cities, they were forbidden to seize private property. Their first mission was to round up all enemy troops, spies, and war criminals. Under the party's 'ten points for attention' CCP cadres and military forces

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pilation of Materials on the Financial and Economic History of the Shanxi, Chahar, and Hebei Border Region during the Anti-Japanese Resistance War] (Tianjin: Nankai daxue chubanshe, 1984), vol. 1, pp. 575-576 for information in 1944 to set target figures for land reclamation, expanding cultivation, and increasing productivity.

<sup>30</sup>Ibid., p. 379.

'refused even the gift of a cigarette from a sympathetic passerby'.<sup>31</sup> Party cadres were ordered to protect factories, mills, and businesses and restore electricity, telegraph and telephone lines, postal services, and public transport, which they did with remarkable speed.

In monetary matters the CCP immediately began replacing the gold yuan (GY) currency with 'people's notes' or *renminbi* (RMB), in all captured cities. The standard rate of exchange was ten GY for one RMB, but the poorer classes could exchange three GY for one RMB. Despite issuing new bonds and installing a graduated tax system, severe inflation persisted throughout 1948-1949 but began to moderate in 1950 as markets between cities and villages were restored. Rationing was also introduced in the large coastal cities.

But workers continued to demonstrate for higher wages, engaging in strikes, work slowdowns, sit-ins and harassing employers. The Kalgan experience had taught the CCP that workers could be reined in and production increased if three conditions were fulfilled: making basic goods available; clearly explaining party policy; and controlling the labor unions. As the party implemented these three goals, labor agitation declined.

The CCP also avoided making the GMD's major blunder. In 1945, after recovering the coastal areas under Japanese rule, Nationalist officials and GMD cadres, instead of prosecuting, adopted a 'condescending attitude' toward citizens who had collaborated with the enemy, enraging the local people. The GMD also introduced a disastrous monetary policy. Japanese occupational currency was to be exchanged for the wartime currency used in the southwest at an exchange rate that discriminated against the local people and favored those relocating from the southwest to the coastal provinces. By contrast, the CCP arrested and investigated all alleged traitors; in the workplace they tried to ameliorate grievances against local elites by quickly replacing them. In addition, the party's monetary policy helped the urban poor and won their support. In these ways the CCP created the foundations for its embryonic command economy in the cities.

## Conclusion

In 1942 the South Manchuria Railway Research Bureau concluded an assessment of China's capabilities for waging war against imperial

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<sup>31</sup>Ibid., p. 389.