

ETHICS, EFFICIENCY AND MACROECONOMICS IN CHINA

FROM MAO TO XI



JONATHAN
LEIGHTNER

ETHICS, EFFICIENCY AND MACROECONOMICS IN CHINA

This book tells the story of how China's leaders, from Mao to Xi, have sacrificed ethics to promote either macroeconomic performance or microeconomic efficiency. This story includes Mao's collectivization of land, the Great Leap Forward, the Great Cultural Revolution, Deng's opening China to international trade, Tiananmen Square, the freeing of prices, food and medicine scandals, the 2015 surge and collapse of the Chinese stock market, the falling of China's foreign reserves, and so on. In 2008, China's leaders correctly identified the best strategy as a "consumption-driven growth strategy" because the current world is suffering from a glut of savings. However, for that strategy to work, the Chinese need to be able to trust China's economy and leaders. In the absence of trust, people will make decisions based on extremely short time frames which will hurt China's long-run potential and continue to generate a series of speculative bubbles. In the absence of trust, wealthy Chinese will continue to move their assets abroad, putting tremendous downward pressure on the Chinese yuan. The Chinese will develop a long-run perspective and invest in China only when they can trust China's future. In today's world, trust is necessary. Trust is built on ethics.

Jonathan Leightner teaches at Augusta University in the United States and Chulalongkorn University in Thailand. Johns Hopkins University hired him to teach at the Hopkins-Nanjing Center in China for 2008–2010. His publications include articles on China's trade, exchange rates, foreign reserves, fiscal policy, and land rights.



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Jonathan Leightner

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I dedicate this book to Justice and to all those who advance her kingdom in their families, villages, cities, provinces, nations, and world. May she be blind to rich versus poor, to powerful versus weak, to race, gender, age, sexual orientation, and religious persuasion. May her honest scales prevent anyone from deceiving others, and may her sword eliminate abuse, corruption, and evil. May Justice be unbound. May she bring prosperity, hope, and peace to all Chinese and to all people everywhere.



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1

INTRODUCTION AND EVALUATION CRITERIA

I love China. The prospering of China and her people would please me immensely. In the context of this love and desire, I see a disaster brewing in China's future. The world has changed, and the strategies that China used between 1949 and 2007 will no longer work. China needs to change if it is going to prosper in this new world. While in China at the Hopkins University–Nanjing University Center for American and Chinese Studies during 2008 to 2010, I taught courses comparing and contrasting the history of US and Chinese economic development. In those courses, I talked about how China and the US need to change in order to have better futures. After one class, a Chinese student came up to me and said, "But, Dr. Leightner, it is so very hard for huge China to change." I almost laughed. I explained to this student that the history of China from 1949 to the present demonstrates China's amazing ability to change.

In 1949 China was one of the most backward agrarian countries in the world and had suffered international defeat after defeat for the previous hundred years, a decade of devastating civil war, and a cruel occupation by Japan. From the perspective of 1949, no one would have predicted that China by 2025 will probably have the world's largest economy, most dangerous armed forces, and greatest international trade. Furthermore, the path between 1949 to the present involved many wrenching changes including the giving of land to those who work it, fighting the world's most powerful military to a bloody standstill in Korea, collectivizing the land, an effort to technologically leap ahead, the twentieth century's worst famine, a massive destruction of culture, total chaos, military imposed order, the embracing of free markets, a return to central control, a student-led movement for democracy, the squashing of that movement by tanks and guns, more freeing of the market, an attempt to address the lack of harmony that permeated China, a surging and then collapsing stock market, the purchasing of massive foreign assets, problems

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controlling the exchange rate, and an effort to take over 80 percent of the South China Sea (and much more than this). China can change.

In order to do better, China must recognize and address her faults. China's primary flaw is her lack of ethics. Every administration between Mao and Xi has sacrificed ethics in order to promote either macroeconomic performance or microeconomic efficiency. From 1949 to 1976, under Mao Zedong, China grew tremendously, enjoyed zero inflation, and had relatively low unemployment. Furthermore, life expectancy almost doubled under Mao, and a mostly illiterate population became literate. However, Mao's primary goal – establishing Marxian Communism – required a just and fair society. Mao betrayed that goal by personally not being ethical and by not creating an ethical society. Mao sacrificed both ethics and microeconomic efficiency in order to promote macroeconomic performance.

From 1980 to 2007, China grew tremendously due largely to the gains from international trade. China became an export powerhouse. However, when the US and Europe went into the Great Recession in 2007–2008, China's leadership, under Hu Jintao, realized that an export-driven growth model would no longer work. Hu announced that China would shift to a consumption-driven growth model. While the world was willing to purchase whatever China produced, China's economy could thrive even though it was unethical. However, a consumption-driven growth model requires that the Chinese masses trust their government and economy. As long as the Chinese masses do not trust, they will save, and they will attempt to move their assets overseas. The only way the Chinese government can get the Chinese masses to trust is for China's leaders to be ethical and for them to create an ethical society. Having sacrificed ethics for either macroeconomic performance or microeconomic efficiency since 1949, China's leadership now needs to focus on ethics. That is the only way that true consumption-driven growth will work, and consumption-driven growth is the only viable option China currently has given the current state of the global economy.

Furthermore, I believe that at least some of China's leaders realize this need. The goal of Hu Jintao's administration was "harmony," and harmony requires trust and thus ethics. If Xi Jinping loses power in the fall 2017 leadership turnover, then Li Keqiang may take over and Li is a protégé of Hu Jintao. This is what I hope because it is what I believe is in the best interest of China, her masses, and the entire world. Please understand that I believe that all countries in this world should emphasize ethics more; however, this is a book about China, not the US or Europe or anywhere else.

Allow me to define and clarify the key evaluation criteria that I will use throughout this book. First, I will evaluate each administration on its self-selected goals. Second, I will see if that administration is ethical. Third, I will evaluate the microeconomic efficiency and the macroeconomic performance of each government's policies. Free markets tend to create greater microeconomic efficiency, and central planning has some key advantages with promoting macroeconomic performance.

There are at least five types of efficiency. Technically efficient means that the maximum amount of output is produced out of the inputs available. If there are any

unemployed resources or if resources are poorly allocated, a country is not technically efficient. Market efficient means that the sum of consumer-plus-producer surplus value is maximized. Consumer surplus value can be defined as the difference between the maximum price a consumer would pay minus the actual price they do pay summed over all units purchased (the area bound by the demand curve and the price). Likewise, producer surplus value is the difference between the actual price a producer is paid for a unit and his marginal cost of making that unit summed over all the units he made (the area bound by the supply curve and the actual price). Profit efficient means that firms are maximizing profits. Cost efficient means that firms are producing at minimum average total cost. Pareto efficient means that no one can be made better off without making someone else worse off. We will use these five notions of efficiency to evaluate government policy under Mao and his successors.

Given certain assumptions (including perfect information, many buyers and many sellers, no externalities, and no public goods), free markets are efficient for the current population. The reason free markets are efficient (given those assumptions) is that people have the freedom to trade with each other and to make decisions that will maximize their benefits. This freedom will tend to produce efficient outcomes for the current population. I emphasize “for the current population” because the population of the future is not in the present to make the world consider its desires, its preferences, and its contributions. People in the present can consider the welfare of their children, grandchildren, great grandchildren, and so on, but this consideration remains a concern of the people in the present, not of their heirs.

Mao believed that the Chinese living during his leadership years needed to sacrifice in order to build a better China for future generations. Central planning can be used to force the current generation to sacrifice for the future. Thus, between the two extremes of a perfectly free market and a planned economy, Mao leaned toward planning.

Centrally planned economies are not efficient. However, it should be realized that many countries have embraced at least partial central planning when some other goal is viewed as more important than efficiency. For example, many segments of the US economy were centrally planned during World War II (WWII) because winning the war was more important than efficiency. Oscar Langa argued that centrally planned economies can be market efficient because the government can just raise the fixed price if a shortage occurs or lower the fixed price if a surplus occurs and, by so doing, imitate the market. However, Langa was wrong, because there are too many markets for the government to watch and adjust instantaneously. Because governments cannot adjust prices as soon as shortages and surpluses occur, forced substitution will occur. If the price of white potatoes is too low and the price of yams too high, then stores will run out of white potatoes and customers will be forced to substitute the expensive yams for the white potatoes. The result is that both markets appear to clear by the time the government checks them. In the Soviet Union, the government checked every price once every five years, and that

is too infrequently for a government that is trying to imitate the market. Thus it is clear that centrally planned economies are not efficient. Furthermore, this inefficiency will ripple through the entire economy – if there is a shortage of wheat, it will affect the market for bread, potatoes, rice, and so forth.

However, the Soviet Union lasted seventy-two years. There must be more to central planning than just inefficiency. Specifically, centrally planned economies can have certain macroeconomic advantages. The obvious first advantage is no inflation – if all prices are fixed, then inflation is impossible. The second advantage is full employment. The US government imposes a minimum wage above equilibrium on the labor market, which produces a surplus of labor, called unemployment. In contrast, a centrally planned economy can set a maximum wage below equilibrium, which produces a shortage of labor – firms are willing and able to hire more people than want to work. This is not efficient, but it can guarantee full employment. Governments that impose below-market-clearing wage rates may be concerned that the set wage is insufficient to support life. In response, many of them subsidize the items in the subsistence basket – food, clothing, and shelter.

Centrally planned economies may be able to create greater growth by sacrificing current consumption for the production of capital. Furthermore, central planning can control the direction of growth by controlling what industries receive investment funds. Moreover, central planning can create greater economic stability by eliminating the fear of people losing their jobs during recessions and by purchasing everything produced, which prevents an inventory cycle from evolving into a business cycle. Finally, central planning may produce more military power and/or international prestige. This can be done by the government telling the best scientists, strategists, and workers to work for their military, space program, or Olympic committee. In free markets, private firms compete with the government for the best minds; in a planned economy, the government can acquire all the best resources. Of course this hurts other sectors of the economy, reduces freedom, and is inefficient. However, the government may have goals that trump efficiency. We will evaluate China's economic policies on the basis of possible goals from central planning, especially those listed earlier.

In general, we can categorize our evaluation criteria into four basic groups – the self-selected goals of a government, the macroeconomic goals mentioned in the previous paragraph that central planning can theoretically promote, the free-market microeconomic goals of the five types of efficiency, and ethics. In another book (Leightner 2016), I compare and contrast “ethics” from three different perspectives. A small minority of ethicists argue that each person is obligated to advance his or her self to the maximum possible. Advocates of this view include Nicolle Machiavelli, Friedrich Nietzsche, and Ayn Rand. In contrast, the majority of ethicists argue that ethics requires that each person not put his or her own interests over other people's interests. Ayn Rand criticizes this majority view because it implies that every person with two kidneys and two corneas should donate one of the kidneys and one cornea to someone with none. A third approach lies between these two extremes. This third approach requires that all people be treated with dignity

and condemns specific acts like lying, murder, adultery, and theft. When I use the word “ethics” in this book, I mean this middle type of ethics – an ethics based on seeing all people as having inherent worth, an ethics based on common respect and decency, an ethics based on following certain basic rules that make a “harmonious” society possible.¹

Instead of working together in a harmonious fashion, the communist leadership in China has been engaged in a vicious tug-of-war for the entire time between Mao Zedong and Xi Jinping. Every administration has produced its own unique agenda and then used that agenda to attract and retain supporters. If the agenda fails, the current leaders are sidelined and other leaders take over with alternative agendas. When Mao’s Great Leap Forward, which emphasized decentralization contrary to the Soviet model, ended in 15 to 30 million famine deaths, Mao lost power, and his agenda was set aside by the rest of the Communist Party. Liu Shaoqi took over the reins of government policy and drove China back toward a Soviet-style, centralized power structure. Mao fought back with the Great Cultural Revolution but ceded some of his power to the army when that revolution ended in chaos.

Hua Guofeng lost power when it became obvious that he could not fund his ambitious economic plans. This opened the door to Deng Xiaoping’s emphasis on trade and market forces. However, even Deng lost power during surges of inflation. Zhou Ziyang lost power when he was unable to control the Tiananmen Square Democracy Movement of 1989. Deng set up his two successors: first Jiang Zemin – from the princeling faction – and then Hu Jintao – from the Youth League faction. The tug-of-war between these two factions created a situation where neither could dominate. Hu Jintao’s chosen agenda was to create “harmony”; however, the failure of that agenda led to his being able to set up only two of his protégés in the seven-member Standing Committee of the Chinese Communist Party Politburo of 2012–2017. This historical pattern of failed agendas resulting in leaders being sidelined has implications for what will happen in the fall of 2017 when the Chinese Communist leadership is due to have the biggest turnover since 1968.

The tug-of-war has also involved a contest between those who advocated macroeconomic performance versus those who emphasized microeconomic efficiency. Mao Zedong strongly favored macroeconomic performance. Deng Xiaoping and Jiang Zemin favored microeconomic efficiency. In practice, Hu Jintao and Xi Jinping favored macroeconomic performance, although they both promised greater microeconomic efficiency. All of the administrations from Mao to Xi have sacrificed ethics.

Many of the problems that Xi Jinping is confronting can be traced back to a lack of ethics. When people do not trust their government and economy, they focus solely upon immediate gains. This short temporal focus underlies the early 2015 surge in China’s stock market, which crashed in the summer of 2015 and then crashed again in January of 2016. The lack of trust also motivates the Chinese to try to move their assets abroad, which is what has caused turmoil in China’s currency market. This lack of trust results in the Chinese saving as much as possible, which undercuts consumption-driven growth. The key to China’s future

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prosperity is reestablishing trust, and the key to trust is an ethical government and society.

My purpose is not to condemn China. My purpose is to point the way to China having a much better future. China enjoyed tremendous growth between 1949 and 2007; however, the world has now changed, and China's best hope for the future is to shift its focus toward being more ethical.

Note

- 1 This middle path for ethics is contained in the world's dominant religions. For example, see The Torah, Exodus 20:1–17 for Judaism; The Bible, Matthew 5:21–48 for Christianity; the Qur'an, Surah 17:22–39 for Islam; the Bhagavad Gita 16:8–18 for Hinduism; and Majjhima Nikaya 9: Sammaditthi Sutta 1: 46–55 for Theravada Buddhism. However, these religions also require more than just ethics.

Reference

Leightner, Jonathan E. (2016), *The Purpose of Life and the Problem of Evil: Sacred Texts Versus Secularization* (manuscript).

2

POWER STRUGGLES OVER POLICIES

The Mao years

When the Japanese occupied China during WWII, they raped, pillaged, and killed. When the Japanese forces first entered a rural area, the Chinese who could lose the most from that occupation – the relatively wealthy landlords – were often the ones that welcomed and collaborated with the Japanese. When, after the war, Mao's People's Liberation Army (PLA) entered a rural area and wanted to establish "communism," the obvious first targets were the relatively wealthy landlords who had collaborated with the Japanese. The People's Liberation Army organized grievance sessions in which the poor peasants aired their grievances against the rich Japanese collaborator who had previously mistreated them. The People's Liberation Army would calculate what the rich landlord should pay in compensation and then demand payment. When the landlord refused, the house of the landlord was attacked. Ultimately, the basement of the house would be opened and within it discovered piles of rotting grain. The discovery of rotting grain in the landlord's basement when the people around him starved infuriated the poor peasants and compelled them to expand their attacks to all landlords (Hinton 1966: 34, 69–79, and 107–134).

Why would landlords let grain rot in their basements while people starve around them? Suppose that half the grain they have stored rots away and is useless, unsaleable. However, a famine, a drought, a flood, an earthquake, or another disaster hits, and the price of grain soars to six, eight, or ten times its normal price. In that case, the half of the grain that is still saleable becomes very profitable. In a country where natural disasters are not uncommon, like China, storing grain in the anticipation of a disaster that would cause the price to significantly increase can be the profit-maximizing thing to do, even if large amounts of it rot. However, is it ethical to allow grain to rot in your basement while those around you starve so that you can increase your profits?

If you think of the grain as "your personal property" and that you have no obligation toward your neighbors, then should not you be able to do what you want

with your private property? If you anticipate a disaster, storing the grain (even though part of it rots away) may be the “efficient” thing to do. William Hinton tells of another case involving “private property” that occurred in Long Bow, China. A poor tenant had a six-year-old son who was very hungry one winter because the previous harvest had been poor. The hungry boy saw some dried leaves clinging to the landlord’s tree, and he stole some leaves to suck on. The landlord caught him, beat him black and blue with a stick, and charged his father one year’s entire crop for the leaves (Hinton 1966: 51). The leaves were the landlord’s; shouldn’t he be able to charge whatever he wants for his own personal property?

Mao and the People’s Liberation Army viewed these types of stories as an abuse of private property. Initially, Mao hoped that eliminating the evil landlords would solve the problem of people valuing profits more than they value each other. After investigating the dominant landlords, demanding compensation from them, and (as a consequence) stripping them of their land and other property, Mao distributed their property in as fair of a fashion as possible. Some of the landlords were killed by angry mobs of peasants whom they had abused, others fled, but the majority stayed and were given small plots to till themselves. When Mao distributed the property of the disposed landlords to the peasants, the peasants were given absolute private property rights (Hinton 1966: 107–156; Meisner 1999: 101; and especially Meisner 1996: 28).

Although Mao had promised an absolutely equal distribution of land to the poor peasants, this did not happen. When actually conducting the land reform, Mao became concerned about disrupting agricultural production too much; thus, he allowed the middle-income peasants to keep their land holdings and to even hire some tenants and to rent out some land. Thus, Mao did not even totally eliminate the exploitation of labor based on the ownership of land as he had promised. Approximately half of China’s cultivated land was taken from landlords and given to those who would till the land (Meisner 1999: 90–99).

In spite of the disruption that land reform caused, total agricultural production increased by 15 percent per year between 1950 and 1952; but Meisner credits the bulk of these increases to the political stability (and re-establishment of trade) that Mao provided after a decade of civil war and foreign invasion. However, he notes that agricultural production in 1952 was significantly greater than in 1936, “the best of the pre-war years” (Meisner 1999: 98). Unfortunately, these leaps in agricultural production did not continue beyond 1952.

While Mao was attempting to consolidate his control of China and dispose of the landlords, the Korean War occurred. North Korea crossed the 38th Parallel on June 25, 1950, invading South Korea. The US and the United Nations (UN) joined the South Korean (ROK) side of the war, but the combined US/UN/ROK side was almost pushed off the southern tip of the Korean Peninsula in September 1950. Counterattacking, their combined forces crossed the 38th Parallel on October 9, 1950, and pushed to very close to the Chinese border. On October 25, 1950, Chinese forces destroyed the South Korean forces at Pukchin. The US/UN/ROK forces evacuated Seoul in January 4, 1951, but retook it on March 15, 1951. On

July 27, 1953, a treaty was signed that stopped hostilities and reasserted the original dividing line of the 38th Parallel. The Korean War was a very brutal, bloody war that ended where it started.

Mao gained tremendous prestige in China from the Korean War – Mao had fought the most powerful military country on the earth (the United States) to a standstill. The Korean War ended China's "century of humiliation" (Meisner 1999: 69–71). In the early 1800s, the British were concerned that China was exporting more to the British Empire than it was importing from the British Empire. This resulted in China acquiring British silver. The British believed that they could reverse this flow of Silver by getting the Chinese addicted to opium that was produced in the British colony of India. The British tried to get the Chinese government to help with this scheme by suggesting that China legalize the trade in opium and then tax it. Instead, the Chinese attempted to stop the illegal opium trade by seizing shipments of opium. The British Empire then attacked China and fought a war to force China to import opium (1839–1942). The fact that opium was illegal in Britain at the time makes the morality of the war even more questionable. The British won the war, forced China to open five treaty ports, and took possession of Hong Kong until 1997 (Naughton 2007: 40–42).

China's century of humiliation continued with the unfair treaties of Whampoa and Aigun, the Taiping Rebellion, the Second Opium War, the Sacking of the Old Summer Palace, the suppression of the Boxer Rebellion, the Sino-French War, the First Sino-Japanese war, the British invasion of Tibet, the twenty-one demands of Japan, and the Second Sino-Japanese war (which was part of WWII). Every time between 1839 and 1945 China fought a war, China lost. Mao stopped that losing streak with the Korean War and gained tremendous internal prestige by so doing (Meisner 1999: 69–71).

However, while the Korean War raged and Mao felt threatened by a possible resurgence of civil war and foreign invasion and he was trying to consolidate his control of China, Mao employed repressive measures that Meisner estimates involved more than 800,000 trials and 135,000 official executions during the first half of 1951 alone. Furthermore, Meisner says that the best estimate (which admittedly is based on very "scanty" information) of the total number of executions that occurred during the first three years of the People's Republic of China (including landlords who were killed by enraged peasants) is two million executions (Meisner 1999: 71–73).

Within two years, Mao succeeded in eliminating the opium problem that had plagued China for two centuries. Furthermore, in the early Mao years, prostitution, alcoholism, and gambling were almost eradicated. He also demanded that Western nationals leave China (Meisner 1999: 81–83). Within the cities, Mao ran three early campaigns to further consolidate his power. In the first – the thought reform campaign – the intellectuals were targeted. The second – the three-anti movement – targeted "corruption, waste, and the bureaucratic spirit." The third – the five-anti movement – was against tax evasion, bribery, fraud, and the stealing of state secrets and of government property. These campaigns, like most Mao campaigns, involved

combinations of mass meetings, small-group “struggle sessions” in which people criticized themselves and others, forced written and oral confessions, and public humiliation (Meisner 1999: 83–87).

Fighting the UN, South Korea, and the United States in the Korean War solidified anti-Mao sentiment in the West. Western leaders made it clear to Mao that they viewed the legitimate government of China as being the one in exile on Taiwan and that the West would not do business with Mao. Mao was forced to turn to the Soviet Union for help. The Soviets sold to China 156 industrial units (at a price equal to two thirds of the cost) and allowed China to benefit from their experience and technology in central planning and industrial production (by providing detailed blueprints and technological information). Furthermore, more than 12,000 Eastern European and Russian technicians and engineers went to China in the 1950s. Meanwhile, more than 6,000 Chinese students went to Russian universities to study science and technology, and 7,000 Chinese workers went to Russia to gain experience in Soviet factories. However, Soviet financial aid amounted to a measly 3 percent of total state investment during China’s First Five Year Plan (1953–1957; Meisner 1999: 109–113).

Mao’s initial industrial plan was to follow the example of the Soviet Union. China’s first five-year plan (1953–1957) allocated 88.8 percent of new investment to heavy industry and 11.2 percent to light industry and proposed a 14.7 percent annual increase in industrial production. Official Chinese statistics claim that the actual increase in industrial production was 18 percent per year, but Western estimates place this figure at 16 percent per year, which still exceeded the plan. Between 1953 and 1957, total industrial output in China more than doubled. Some of the industries that grew the most between 1952 and 1957 were:

Rolled steel: 1.31 million metric tons grew to 4.48 million metric tons

Cement: 2.86 million tons grew to 6.86 million tons

Pig iron: 1.9 million tons grew to 5.9 million tons

Coal: 66 million tons grew to 130 million tons

Electricity: 7.26 billion kilowatt hours grew to 19.34 billion kilowatt hours

To implement the first five-year plan, Mao followed the Soviet model by making a single person responsible for each factory. Workers were rewarded according to how much they produced, their skill, and their expertise, which created increasing wage differentials. Those in leadership positions were divided into twenty-six ranks with salaries that ranged from 30 yuan to 560 yuan (US\$12 to US\$224) per month (Meisner 1999: 108–119).

In contrast to industrial production increasing by 16 percent per year between 1953 and 1957, official Chinese statistics claim that food grains increased at only 3.7 percent per year, but foreign estimates put this figure at 2.7 percent per year, keeping slightly ahead of population growth rates of 2.2 percent per year (Meisner 1999: 114). A 23 percent increase in agriculture for 1953 and 1954 had been assumed in the First Five Year Plan (Meisner 1999: 132). Actual agricultural growth

of less than 4 percent was unacceptable because Mao needed agriculture to produce extra food to feed those industrializing the country and to sell abroad for currency that would be used to purchase tools and machinery. For these purposes, the state took approximately 30 percent of the grain produced. Worried that the anemic agricultural growth would produce problems in the countryside, the government's take of grain was reduced to 25 percent for 1956–1957, significantly reducing what could be used for industrialization (Meisner 1999: 149).

Mao had always planned to ultimately collectivize the land, but he had envisioned this happening after industrialization, perhaps twenty or more years in the future. Furthermore, when the land was to be collectivized, it would be collectivized voluntarily primarily by convincing the peasants that collectivization would greatly enhance productivity, making everyone wealthier. The weaker-than-desired harvests of 1953–1957 convinced Mao that he needed the productivity gains from collectivization as soon as possible. Mao bypassed the Central Committee and launched his collectivization drive by giving a speech on July 31, 1955, to regional and provincial cadres who were attending the National People's Congress (Meisner 1999: 129–137).

Between December 1954 and December 1956, the percentage of farming households enrolled in cooperatives increased from 2 percent to 98 percent (Naughton 2007: 67; for more details see Meisner 1999, chapter 9). The reason it only took two years to collectivize the land is because when local government officials heard Mao's desires, they wanted to be the first to implement them. By being one of the first, they would receive praise from Mao and possibly a promotion. This phenomenon of Mao saying relatively little about what he saw as a need causing major shifts in policy and a major competition to be one of the first to implement the new policy continued throughout Mao's life.

Collectivization of agricultural lands did not produce the increases in agricultural production that Mao had hoped; however, it also was not the disaster that its opponents predicted. Except for the Great Leap years, China's collectivized agriculture did feed China's rapidly growing population, but it did not produce the massive surpluses Mao had hoped would finance industrialization. The collectives did provide farmers with higher levels of health care, greater security, and expanded education opportunities. Furthermore, the collectives provided a way to make massive improvements in agricultural infrastructure, especially by digging hundreds of miles of new irrigation ditches (Meisner 1999: 147–148).

Mao's bypassing of the Central Committee on July 31, 1955, concerning collectivization came with political costs. Afterward, Mao wanted to move away from the Soviet model, but a majority on the Central Committee did not. Mao responded by reviving the saying, "Let a hundred flowers blossom, let a hundred schools of thought contend," which implied that intellectuals should be free to criticize the Party. Mao wanted the intellectuals to be his tool in his effort to mold the Central Committee toward his way of thinking. The Communist Party bureaucrats opposed the "contending and blooming," warning that "poisonous weeds" would spring up with the flowers. The intellectuals were suspicious and