“China’s Hayek” and the Horrors of Totalitarianism: The Liberal Lessons in Gu Zhun’s Thought

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Liberalism in Modern China

Modern liberalism was first systematically introduced to China in the late nineteenth century when China’s national survival was threatened by the imperialist powers. Yan Fu is regarded by many as the first Chinese liberal who translated the classical works of Smith, Mill, Montesquieu, among others, in the 1890s and 1900s into Chinese (Schwartz 1964; Huang 2008). Leading constitutionalist reformers of the late Qing dynasty and early republican period like Liang Qichao (Chang 1971) also helped spread many of the ideas of liberal constitutionalism to the Chinese intelligentsia. The challenge of imperialism to China then went far beyond military defeats, political upheavals and the need for institutional reforms. The Chinese intellectuals found that the Chinese tradition alone was far from adequate to help respond to the challenge brought by the sudden

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intrusion of the need for modernization in China, and Western political ideologies, liberalism included, were regarded as the kind of new knowledge essential for China's transformation into the modern world.

While the pre-1949 Chinese liberals were neither the most revolutionary nor profound in responding to this crisis, modern liberalism nevertheless was one leading political ideology at that time that helped shape the national development of China. For example, John Dewey's Chinese disciple Hu Shih (Grieder 1970), the leading Chinese liberal since the early twentieth century until his death in Taiwan in 1962, was the one who started modern China's new literary movement, in which he succeeded in replacing the use of classical Chinese with the vernacular language in Chinese writing. His advocacy of scientific method and human rights at that time also contributed to the demand for democracy and science in the patriotic May-fourth Movement of 1919 (Chou 1960) and beyond.

Although the 1911 republican revolution managed to overthrow the Qing dynasty, the subsequent political chaos in the warlord period and the failure of the republican government under the Chinese Nationalist Party to modernize China and to drive out foreign invasions turned many Chinese disillusioned with the republican regime. The revolutionary alternative provided by the Chinese Communist Party and the successful example of the soviet experience in Russia at that time, particularly when the capitalist West suffered from the Great Depression of 1929, looked increasingly attractive to many Chinese. Intellectually, the belief in the superiority of scientific reasoning since the May-fourth also brought scientism to China (Kwok 1965; Lin 1979, p. 69), which not only helped promote a total critique of the Chinese culture, but also indirectly helped create a widespread support for radical politics in the name of scientific socialism or Marxism, leading to the eventual success of Mao Zedong's Communist revolution in 1949 and the establishment of the People's Republic of China.

Mao of course was no friend of liberalism. In his essay "Combat Liberalism" (Mao 1961, pp. 31–33) written in 1937, Mao denounced liberalism as opportunistic, arguing that the liberal ideology was rooted in petty bourgeoisie's selfishness and always placed personal interest above the interest of the revolution. He called for the elimination of liberalism in the ranks of the revolution. Not unexpectedly, therefore, in Mao's China, liberalism was not only denounced, but also disappeared from public discussion because of the above reasons. But ironically, one could argue that the seeds of the revival of liberal thinking in Communist China were sowed soon after it had launched its first five-year plan (1953–1957). These seeds were further developed during Mao's heyday of totalitarian rule in the Cultural Revolution. One leading thinker in this liberal revival was a veteran Communist revolutionary named Gu Zhun, who is now being credited by many present-day Chinese liberals as the first mainland Chinese economist who openly advocated the necessity of market reform under Communist China in the second half of 1950s (Wu 2005, in Luo ed. 2017, p. 184; Bottelier 2018, p. 132), which was ahead of Deng Xiaoping's post-Mao opening up of China in 1978 for more than 20 years.[1]

From "Venture Communist" to "China's Hayek"

Gu Zhun (1915–1974) was born in Shanghai, China's most economically developed city before the Communist takeover. He started to apprentice as an accountant since the age of 12 under the mentorship of the then Harvard trained accountant Pan Xulun. Gu was a successful young professional at that time and authored several widely circulated textbooks on accounting. Upon Pan's recommendation, Gu became a professor of economics at the Shanghai College of Commerce. However, he chose to join the Chinese Communist Party when he was 20 because the Nationalist regime failed to resist Japan's invasions to China. Before Gu became a Communist, he was radicalized through his contact with the young printers of the Shanghai Commercial Press during his liaison with them for his books' publication. These printers, according to an historian of Shanghai at Berkeley, "were among the most radical of Shanghai's organized workers" (Yeh 2007, p. 199). Gu was also influenced by one former senior schoolmate at Chinese Society for Vocational Education who joined the then Communist and unionist infiltrated Labor University, where Gu picked up Western radical political thought like anarchism and the idea of capitalist exploitation of the laborers. It was from about that time that Gu gradually started to embrace the idea of violent revolution in China and regarded his professional accounting work to serve the capitalists in Shanghai as a kind of disgrace (Gu 2002, pp. 15–20; Yeh 2007, p. 199).

Late in 1934, because of his radical ideas and political activities, Gu was forced to flee from his home from possible persecution to Shanghai's foreign concessions where the Chinese government did not have jurisdiction. At around the same time, Gu formed the Society for Progress with his former classmates of Chinese Society for Vocational Education and his young associates in the accounting profession, and the Society eventually became a spontaneous Marxism-Leninism cell under the Chinese Communist Party. After joining the Chinese Communist Party, Gu became a leading cadre in the Shanghai and East China region. He, however, needed to flee again in 1940, this time out of Shanghai and went finally to Yanan, the revolutionary base of the Chinese Communist Party, in 1943. In April 1949, Gu returned to Shanghai triumphantly with the People's Liberation Army. He was tasked with the responsibility of taking over the financial and taxation departments of the municipal government of post-civil war Shanghai (Gu 2002, pp. 65–149; Yeh 2007, pp. 200–204).

Although Gu Zhun's time wielding at the helm of taxation and public finance of liberated Shanghai was far from long (1949–1952), his excellent professional knowledge, his good old-boy network with Shanghai's accounting and finance elites who had been working with him and his mentor, together with his pragmatic strategies helped him not only come up with creative policies and measures to implement a smooth takeover, but also restore Shanghai's war-torn economy and fill up the coffers of the nation by increased tax revenues soon after the civil war. By March 1951, tax receipts in Shanghai, through Gu's insistence on the implementation of his specialist system of taxing on the profit on capital, had already swelled to almost 11 times their level of 1950. When compared with the ideologically more orthodox bottom-up democratic assessment method as advocated by some other cadres, Gu's system appeared to be less politically correct by indirectly allowing the capitalists' profit motive to thrive in a newly created socialist state. But the success of Gu's professionally oriented system managed to provide the new state with increased and durable sources of revenue for the urgent tasks of national reconstruction and funding the war in Korea, to which the People's Republic of China was firmly committed at that time. To Gu, the democratic assessment method was arbitrary, allowing members of different trade associations to ascertain rather subjectively how to apportion their respective shares of tax payment to fulfill the state-imposed overall quota of tax revenue. Gu's taxation system eventually got the blessing of Mao and was practiced nation-wide.[2]

Christopher R. Leighton has given us an excellent account of Gu Zhun in Shanghai in 1949–1952 (Leighton 2014). It is interesting to note that Leighton calls Gu a "venture Communist". He argues that Gu confounds some general assumptions about Communist cadres, since "while he may have been a cadre, Gu Zhun was also something of an entrepreneur (of economic related ventures more than actual firms, to be sure), conversant with the language and processes of business, and accomplished at introducing novel ways to novice audiences … Not all cadres were bent on wiping away Shanghai's [capitalist] past; taxes could be an exciting, modernizing innovation, and within the party some evangelists for economic change imagined a different sort of socialism" (ibid., p. 120).

For Leighton, Gu was never a doctrinaire Communist. To Gu, the Western-style accounting methods were a tool. While the capitalists might use it to protect profit, Communists could wield it to raise state revenues or wrest back imperialist-owned property (ibid., p. 130). Leighton further shows us that Gu was never a fan of the Soviet-style centralized command economy from day one. Instead, he and other like-minded cadres in this period pursued "a decentralized, locally based system of socialist enterprise, overseen by regional governments with budgetary independence from the central government" (ibid., p. 136), in which the locally controlled state enterprises each should implement "enterprise-type accounting" to tighten fiscal control for effective and economically efficient management as much as possible (ibid., p. 137).

Gu did not stay long enough in his leadership position in Shanghai to allow his scheme mentioned above to succeed, though Leighton regards it as having set a very early "precedent for decentralization and market socialism" for Deng's reform era (ibid., p. 136). Somewhat unexpectedly and without any pre-warning, Gu was abruptly removed from office in early 1952 during the Five Anti Campaign launched by Mao. The Campaign was to fight against the "capitalists" in the Party and on the mainland on charges of bribery, tax evasion, theft of state property and economic information. However, Gu was never accused of any substantial "capitalist" crimes in the Campaign and no specific charges were raised. The Shanghai party committee only accused him of "grave individual heroism" and "disregarded organizational discipline" (Gu 2002, pp. 209–213). While here we see many signs of an idiosyncratic Communist cadre in Gu Zhun with unorthodox views on how to pursue socialism on Chinese soil, his substantial and well-articulated departure from doctrinaire socialism came a few years later in 1957 when he first challenged the then orthodox view of the dispensability and temporality of the law of value and the price mechanism under socialism in his theoretical article "A Tentative Discussion of Commodity Production and the Law of Value under the Socialist System" (2002, pp. 77–133).[3] In the article (hereinafter called "Tentative Discussion" in this chapter), he argued that socialism could not do without the law of value, the price mechanism and using money as a circulating medium for exchange. This is because without following the law of value in economic production, there is no rational basis for socialist planning, not to say a more effective and efficient utilization and allocation of resources. This was a challenge that in many ways quite similar to Ludwig von Mises' and Friedrich von Hayek's critique of socialism in the famous socialist calculation debate in the 1920s and 1930s in the West (Hayek [1948] 1980, pp. 119–208).

Economic Calculation and Socialist Planning

Mises is the first theorist who argues that since it is not possible to have economic calculation under socialism as understood by Marx and Engels, the system of socialist central planning is "just a system of groping about in the dark" (1963, p. 699). To Mises, socialism is a system of social cooperation without a market, in which private property is replaced by collective ownership, with the state owning all the means of production. Production is purely for use in accordance with a centralized command plan and not for exchange. Commodities under such a system will eventually be abolished since all consumption goods are only for socialized use. Money is no longer required as there is no need for any medium of exchange to be circulated, and the price mechanism is superfluous because values of the products only reflect the useful labor time for their production. Exchange value has allegedly become irrelevant.

Mises believes that under socialism, economic calculation is logically impossible since without the price mechanism and money as the medium of exchange, there is no common standard to compare the relative economic efficacy of different products, services and factors of production in a society. It is therefore unclear how socialism can make improvement to its economic performance to better serve the need of the people. To Mises, the Marxian labor theory of value is problematic not only because it is never clear if there exists any universally valid scale to define what is skilled and what is simple labor and to conduct conversion between the two, it is also because if value is defined as the amount of socially useful labor time for production, it is far from adequate since it fails to take all other non-labor factors of production into account in determining the true value of a product. "What is ultimately decisive for the solution of the problem of the feasibility of using labor as a basis of economic calculation", says Mises, "is the question whether one can assimilate different kinds of work to a common denominator without a valuation of the products by the consumer" (1981, p. 115). Mises points out that with the abolition of private property and the market, it is doubtful if the central planners can come up with a rational plan for production and distribution for all that could serve the respective preferences of the producers and consumers.

Hayek's contribution to this debate is to develop Mises' logical critique into an epistemological critique, spelling out the indispensable part plays by circumstantial knowledge (such as market participants' here and now preferences) in economic decision and social coordination and why the contextual and interactive nature of this kind of knowledge (e.g. market players' decisions are dependent on their anticipation of what other players may decide) makes central planning impossible ([1948] 1980, pp. 77–91). To Hayek, "[t]he economic problem arises…as soon as different purposes compete for the available resources" (ibid., p. 123), and it is unclear on what rational basis a central planner can rely to determine which purpose should be chosen in his plan over other competing purposes to better suit the needs and demands of the citizens.

A close examination of Gu's "Tentative Discussion" shows that he came up with similar views on this question of economic calculation, even though there is no evidence to suggest that when he wrote the article in 1956–1957, he had the privilege of having learned from Mises and Hayek in the famous socialist calculation debate of 1920s and 1930s.[4]

Gu argued that on matters like this, it was more important to empirically examine the issues involved (i.e. looking at the actual practice of state socialism we found in the USSR and China) rather than dogmatically assuming that Marxism had already solved all the economic problems under socialism once and for all. In "Tentative Discussion", Gu was not only courageous enough to point out the contradictions committed by Stalin (2002, p. 96) and the inadequacy of classical Marxist theory on this matter, he in effect advanced the thesis that without the price mechanism in the market, there was no rational basis to come up with a common yardstick to measure and compare the relative economic efficacy of different products, services and factors of production in a society. Like what Mises and Hayek had argued, Gu believed that central planning alone would not provide us with the necessary information for economic allocation, production and coordination.

Gu admitted in "Tentative Discussion" that classical Marxism argued that in theory, market exchanges among individuals would be abolished and money as a medium of exchange was therefore superfluous under socialism. Money would then be replaced by coupons which represented the useful labor time contributed by the workers concerned in productive work. Workers could use the coupons to redeem the allocated consumption products they deserved to get under a socialist economy (ibid., p. 79). However, Gu reminded us that the historical experience in Soviet Russia demonstrated that the efforts in introducing the labor coupons to replace money in the country after the October Revolution failed, and Lenin was forced to reverse this policy by 1921. Money as a medium of exchange had since been reintroduced and it remained in place in the USSR and in socialist China (ibid., p. 83). On matters like this, Gu thought that instead of being dogmatic, one should be open-minded and learn from our actual experience, since Marx and Engels were not in a position to know about all the subsequent developments that occurred in the socialist states with ready-made answers to the new problems we might encounter subsequently (ibid., p. 88).

Gu argued that money as a medium of exchange had many functions that could not be replaced by labor coupons. For example, as a general medium of exchange, money allows consumers to use it to buy different kinds of products and services since it provides a common numerical standard for exchange. Also, through savings, interests, credits, loans and other related financial tools, money can be developed into a credit system that facilitates delayed or advanced spending and investment if the people or enterprises find it desirable to do so. However, the crucial point is that money, together with the price mechanism and the law of value, provides a common standard in economic calculation to help determine what rational economic decisions should be made to enhance productivity and better distribution of resources.

Gu noted that classical Marxism did not anticipate the need of doing economic calculation under socialism. Quite the contrary, it postulated that products produced under socialism would not be converted into value since they were produced for socialized use, not for exchange (ibid., pp. 104, 108–109). However, Gu argued that if socialism aimed to increase a society's overall productivity and to improve the wellbeing of the people, we could not simply rely on a pre-determined central plan to come up with information about the relative economic efficacy of a certain product when compared with its substitutes before making the most economically rational decision for production and resource distribution. Instead, we would have to rely on economic calculation to ascertain the relative economic efficacy of the concerned product before a production and distribution decision was made. This, in effect, is the same as admitting the inevitability of the economic problem under the circumstances, a theoretical point recognized by people like Hayek, who believes that "decisions of this sort will have to be made in any conceivable kind of economic system, wherever one has to choose between alternative employments of given resources" so that the advantages deriving from the most economical use of given resources can be taken ([1948] 1980, p. 123).

Why the most economical use of given resources cannot be planned in advance? Gu's answer was that it was because the level of labor productivity changes all the time, depending on many contingent and changing factors, such as the more efficient use of given resources due to technological breakthrough, the change in the length of necessary labor time, the improved skillful use of production facilities, the reduction in management cost, variation of time in the cycle of production, the extent of using recyclable materials, so on and so forth (2002, p. 85). Gu believed that only through economic calculation could we capture this kind of dynamic information to help planners come up with a rational approach in economic planning. Gu argued that historically, it had been proven that treating the whole society or country as one accounting unit in economic calculation was not viable (ibid., p. 97). Instead, each enterprise should be treated as one separate and independent accounting unit, each possessing its own fund and balance sheet to do the calculation. Where necessary, a big enterprise should also be sub-divided into different independent sub-units for the same accounting purposes. This, in effect, amounts to suggesting that there should be decentralization in the management of enterprises, with each enterprise enjoying its autonomous status in economic calculation. This eventually was a reform measure adopted under the Deng era for the development of market socialism after the late 1970s.

Gu's idea is that the price of a product is a numerical index expressed in the form of a circulating currency that represents the value of a product. If the currency is relatively stable, the price of a product, when compared with the value of that product, is relatively more stable, though the sum total of all the prices in a society in the end must equal the sum total of the values of all the products produced in that society. If the price of a particular product in that society is higher than the value of the product concerned, it will be balanced out by the lower than value price of another product in the same society in the end. In a society's division of labor, the necessary labor spent on a particular product is not a constant, and hence the value of the product may vary from time to time as explained above. The value of that particular product is also not the same as the average useful labor time spent on all the products of the society too, and it is through this relativity in values, which ultimately are translated into the relative prices of different products in the market, that helps determine the relative economic efficacy of different products (ibid., pp. 106–111).

Gu said that the pure income in an accounting unit through the sale or transfer of products was not a pre-known data. Instead, it is through economic calculation, reflecting the changes in the unit's productivity level and the demand and supply situation in the economic process, that the enterprise concerned could come up with the actual data, which is the total income minus the cost of production (including workers' salary, expenses for resources and facilities for production, maintenance and management fees, depreciation, taxation and so on) (ibid., pp. 155–173). The same kind of product or its substitute may be produced by different accounting units, but the pure income of each of them may vary, depending on their ability to control cost and to meet new demands. If the enterprises or producers are in a position to adjust the price of the product in accordance with their productivity level and with the demand and supply situation found in the market, those with higher productivity and earn more pure income will be in a position to adjust the price of the product to facilitate more production and sales, aligning the price more with the adjusted value of the product. This in effect is bringing market competition back in to the economic process.

The dynamic nature of economic calculation and the static nature of central planning were clearly recognized by Gu in "Tentative Discussion":

> Economic calculation's ability to make adjustment helps economic planning obtain data that cannot be obtained by statistical surveys, and it is on the basis of these data that future economic planning is to be made. For example, when a society's level of consumption is raised, production of consumption materials should in parallel be expanded accordingly. However, amongst the different and diverse kinds of consumption goods, which ones should be expanded, the extent of expansion, and the proportion of expansion amongst different consumption goods are all important data that cannot be reliably found just by consumption surveys, no matter how meticulous these surveys are. Yet by observing the movements in the retail market of consumption goods, by identifying which products are very much sought after and which are not, and by looking at the price adjustments made in the sales of these products, one can detect all the changes happened in demand and supply and, in accordance with which,

> one could adjust one's production decisions. Similarly, in each production enterprise, the sales situations and the related price and profit adjustments happened to its products are important indicators telling us the degree of equilibrium achieved between product production and consumption and the changes in productivity level. Information of these kinds are all very useful for future economic planning. Society's re-production process is a continuous process and the annual production plan for the society does not come out of the blue. The information and data generated from economic calculation form one fundamental basis for economic planning. Without these, no economic planning can be made (ibid., p. 99).

While Gu mostly adopted socialist ideas and terminology in advancing his arguments for economic calculation under socialist planning in "Tentative Discussion", the logic underlying his analysis was in many respects consistent with the critique of socialist calculation as separately developed by Mises and Hayek, though Gu did not go all the way to analyze in what ways were the decentralized, independent accounting units (i.e. enterprises) different from the privately owned enterprises and how these state-owned but independent units could be autonomous and state-directed at the same time when doing economic calculation. Likewise, Gu's insistence on economic calculation did not go all the way to deny socialist planning, even though it was clear from his arguments that the two were logically rather incompatible.

The publication of "Tentative Discussion" in 1957 eventually earned Gu the honor of being regarded by many as the true "father" of socialist China's market reform (Bottelier 2018, p. 132), though its more immediate impact was that partly because of this, he was purged by the Party as a rightist (i.e. a reactionary who opposed the revolution). He was expelled from the Party in the autumn of 1957 (Gu 2002, pp. 225–250). Although Gu was not the only first generation economist (Bottelier 2018, pp. 125–138) since the establishment of the People's Republic to advocate the importance of the market in building socialism after 1949, his "Tentative Discussion" was the most critical and comprehensive theoretical treatise before the Cultural Revolution to openly examine the limits of central planning and the necessity of introducing economic calculation in China.[5]

Hayek is of the view that "the differences between socialists and non-socialists ultimately rest on purely intellectual issues capable of a scientific resolution and not on different judgments of value", and he believes that the doctrines advocated by the socialists "can be shown to be based on factually false assumptions", and the whole family of socialists thought can be "proven erroneous" (1973, p. 6). When it comes to Gu's understanding of the relationship between economic calculation and socialist planning, I think it can be said that he was closer to Hayek than to Mao and the then Chinese Communist Party. This is one reason why he is labeled by some today as "China's Hayek" (Ma 2010, in Luo ed. 2017, pp. 328–348). But the subsequent political purges against him and his experience during the Great Leap Forward and the Cultural Revolution helped convince Gu that Communist idealism was not the answer to China's modernization. Instead, liberal empiricism was what was needed if one wanted to avoid the horrors of totalitarianism.

Famine, Politics in Command and the Horrors of Totalitarian Rule

Not long after Gu was expelled from the Party in November 1957, he was sent to labor camps for re-education. He was first sent to a camp in Hebei province (May–December 1958), and later to the remote rural area of Shangcheng (March 1959–February 1960) in Henan where he experienced one of the worst famines in human history. That was the Great Chinese Famine of 1959–1961, in which close to 30 million people were estimated to have died in the food crisis (Sen 1999, p. 181; Lin and Yang 2000, p. 145).

In November 1961, Gu managed to remove his rightist label and resumed his work in the Economic Research Institute of the Chinese Academy of Science. But he was purged as a rightist again in September 1965 before the start of the Cultural Revolution. This time, his wife divorced him and later committed suicide. His children denounced him as father and refused to see him again throughout his life.

Gu, however, did not stop reflecting on the Communist experience of China during these difficult times. Most of his critical reflections in these two re-education periods can be found in his diaries from October 1959 to January 1960 and October 1969 to September 1971 (Gu 1997, 2002), respectively, with the former chronicling how the Famine killed many of the rural peasants in Shangcheng, and the latter recording his personal suffering after having learned of his wife's suicide. These diaries also contained his analysis that the politics in command kind of revolutionary approach adopted by Mao would eventually need to give way to economic reform and opening up if China wanted to avoid further economic catastrophes and to build a strong nation.[6]

Although Gu's diaries were no systematic studies of the Communist experience of China in those periods, his analysis was sharp as his critique profound. For example, a careful reading and reconstruction of his observations there could help vindicate Amartya Sen's subsequent entitlements approach in explaining the cause of famines in modern society where both property and democratic rights are absent (Sen 1981; Zhang 1998, in Luo ed. 2017, pp. 191–212). One famous quote of Hayek is from Leon Trotsky: "in a country where the sole employer is the State, opposition means death by slow starvation" (Hayek [1944] 1972, p. 119). Gu's analysis in his diaries echoed this observation. It showed that in a country where the sole employer and power holder was the Party, and the Party upheld politics in command with a wartime economy imposed on the peasants with a view to achieving rapid industrialization in the urban cities at the expenses of the rural areas, death by slow starvation for many peasants in the countryside was probably inevitable, even though the overall food supply may still be sufficient to feed the whole population. The absolute control in this period was supplemented by ruthless political campaigns and oppression against the "class enemies", in which Gu was labeled as one of them.

In Gu's Shangcheng diary (Gu 1997, pp. 1–131), three things came out very prominently. They were, firstly, hunger, food and death by starvation. Secondly, hard labor by the rural people and those who were undergoing re-education in the labor camps even at the time of food crisis. Thirdly, Gu's reflection on the cause of the Famine and how Communist oppression inevitably led to general moral depravity, which was reminiscent of what Hannah Arendt has to say about totalitarian domination: the killing of the juridical person in man, the murder of the moral person in man, leading finally to the killing of man's individuality (Arendt 1973, pp. 437–459).

We learn from Gu's December 1959 diary entries that there were 79 members in his hard labor team, most of them were under re-education in Shangcheng (ibid., pp. 71–72). He reported that in the summer of 1959, a few team members started to look bloated because of malnutrition. This was to increase to over 40 in September and October, which later jumped to over 70 in November/December 1959 when the famine in Shangcheng sunk in and hit the population hard (ibid., pp. 47–48). Gu subsequently recorded that three members of the hard labor team died (ibid., p. 119). This, on its own, already indicated the seriousness of the famine, and we should be mindful that even under such a situation, most of them in the team (except the leading cadres who were there to enforce party rules) were required to do whole day hard labor work most of the time. Gu himself was required to engage in all day hard labor work in 190 days out of the 199 days while he was with the team in Shangcheng (ibid., p. 82).

However, when compared with the local peasantry, the situation in the hard labor team looked like "heaven" and a "safe haven". This was the case because while food was scarce, its supply had not been stopped for the team (ibid., p. 13). On the contrary, out of the 13 members in Gu's vegetable farming sub-unit in his hard labor team, there were six local members, out of which five had family members died of starvation at that time (ibid., p. 87). In his 17 December 1959 diary entry, Gu recorded that a member in another sub-unit named Huang had his wife, father, elder brother and two kids died of starvation within a matter of one and a half months. At least four local members in the hard labor team had more than one family member died of starvation (ibid., pp. 51–52, 94). In fact, there were horrendous news of cannibalism in Shangcheng as recorded in Gu's 22 December 1959 entry, in which a husband ate his wife after he had killed her, and an aunt ate her niece after the latter had passed away (ibid., p. 58).

Gu estimated that in that winter, if the then 420,000 population of Shangcheng could be reduced by 70,000 to 350,000 before local food supply was expected to improve next spring, it would be a very good thing already (ibid., p. 53). Gu observed that hunger would drive people to do whatever necessary for survival, such as cannibalism, prostituting, lying, flattering in order to get favor, falsely accusing others in return for food and so on (ibid., p. 118). In his 14 January 1960 diary entry, Gu was tormented by the fact that he stole food in order to combat hunger many of the times while he was in the hard labor team (ibid., p. 113). Gu described Shangcheng as a land full of wailing and despair (ibid., p. 74) where it was not uncommon that half of the members of an agricultural production team in the rural area died. Gu also noted that while the situation in Henan was bad, the province further south in Hubei was even worse (ibid., pp. 119, 130). That spoke volumes of the serious situation in this Famine during the Great Leap Forward.

But the situation in the urban areas was very different. Gu was allowed to leave the labor camp in Shangcheng on 28 December 1959 after having served in the hard labor team for 199 days. He, together with other released members of the team, stayed in the county town area of Shangcheng until 17 January 1960 before returning back to Beijing. Throughout these weeks, Gu no longer faced starvation. Food supply for him and his colleagues was not a problem then. They even had the opportunity of visiting a designated model village Changchunyuan south of Shangcheng. Gu found that Changchunyuan had a population of 20,000 with 20,000 acres of good quality farm land. Although it was a remote village, food supply was abundant. Unlike peasants in other rural areas who were required to help with massive infrastructural projects, such as highway and big dam construction, people in Changchunyuan were not required to do the same. A nearby village called Daquandian also enjoyed similar privilege and was relatively well off (ibid., p. 90).

Even in the badly affected areas, as we have seen above, the hard labor team was in a better situation than the ordinary peasantry in Shangcheng. Although members in the team were mostly rightists and were undergoing socialist re-education, most of them were from the big cities. The team and the labor camp were managed by the Party with relatively secure though reduced food supply. The ordinary peasants, on the contrary, did not enjoy this treatment. In addition to facing reduced supply, the peasants had to fulfill the official procurement quotas before they could have food to eat. Also, within the team, the leaders and those who were close to or favored by the leaders never had the problem of having adequate food supply.

For example, Shen Wanshan was the party secretary responsible for re-educating the members of Gu’s hard labor team. Not only that he could eat whatever he wanted, he also occupied the best acre of land in the camp, which could produce high quality vegetable with members of the team helping him do many of the necessary chores in the field (ibid., p. 3). Gu described Shen as a “dictator” and “emperor”, saying that while members who planted the melons in the field were thieves if they picked the melons without formal permission, Shen could pick them anytime he liked for private use. His family members could take whatever food they wished in the collective kitchen anytime, which was a forbidden area for other team members. Similarly, those who had the fortune of working in the collective kitchen or were being favored by Shen were a privileged few with their own rights (ibid., pp. 8, 37).

In his diary, Gu did not subscribe to the view that the main cause of the Famine was the sudden drop of total food supply, even though China did suffer from drought and bad harvest then (ibid., p. 58). Instead, he believed that it was the result of a centralized, tightly controlled political system imposed by the Chinese Communist Party, with the aim of speeding up China’s industrialization by creating a kind of semi-military type of wartime economy to exploit a backward, massive and overpopulated rural sector in order to squeeze enough surplus for urban modernization.

Gu argued that China had long been a vast agricultural country with the peasantry living on a subsistence kind of economy. Any rapid population growth in the countryside would easily lead to overpopulation without a corresponding growth of food supply, unless there was a great improvement in agricultural productivity, which could only be achieved by agricultural mechanization in a large scale. This situation well fitted into the Malthusian trap and the related theory of population (ibid., p. 48). In order to cope with this problem, Gu believed that the Chinese Communist Party under Mao wanted to solve the problem of rural overpopulation and the need for rapid industrialization in one go by following Stalin's collectivization program of the 1930s. In the Chinese context, what was introduced was a rigid household registration system, in which there was a strict control for people's movement between the urban and rural areas and from one's registered household location to other locations. Secondly, in the rural areas, people's communes, a kind of semi-military production and labor formations, grouped all the peasants into different units, the organization of which were modeled after the military for mass mobilization to help build great infrastructural projects for the state during their off-peak agricultural seasons. According to Gu's diary, 70 million people nation-wide were organized for this purpose in 1959 to exploit the cheap and massive labor force in the rural areas for rapid modernization.

In the communes, collective kitchens were established with food rationing and consumption under tight control. When overall food supply was a problem, the collective kitchens would be hit seriously since the Party adopted a policy of favoring the urban areas in order to facilitate urban development and rapid growth in heavy industry (ibid., pp. 58–59, 86). Another serious problem for the rural areas in the Great Leap Forward was that under the euphoria of rapid transition to socialism promoted at the time, many local authorities had largely exaggerated many of their alleged production quotas in order to demonstrate their revolutionary zeal and achievement, the result of which was that local rural food supply was further diminished because of the need to fulfill the inflated quota requirements. Lin and Yang's (2000) research showed that while 1959s overall food supply dropped by 15%, China's net grain export (presumably to earn foreign currency) still continued to reach historical height. In addition, the total procurement of grain output by the central authorities also reached a peak since the quota-output ratio of 25.9% in 1958 was raised by inflated quotas to 37.7% in 1959. "As a result", Lin and Yang said, "the excessive procurement severely reduced the food supply to which rural people were entitled" (Lin and Yang 2000, pp. 143–144) during this serious food crisis.

Gu at that time did not have the benefit of having access to the relevant macro data that Lin and Yang later have in analyzing this Famine.

But what he observed in his diary was essentially confirmed by Lin and Yang's more systematic work almost 40 years later, in which they argued:

> In 1953, the central government introduced a system of Unified Procurement and Unified Sale for grain and oil-bearing crops, which brought all grain procurement and distribution under its direct control, as a way to suppress food prices…Accompanying the Unified Procurement and Unified Sale was a rigid household registration system, which deprived the rural population of the right to move to urban areas and thereby put the country-to-city migration under the government's tight control. The aim of these schemes was to extract as much agricultural surplus as possible to facilitate the heavy-industry-oriented development strategy that had resulted in an increased demand for grain and other agricultural products for urban food consumption and exports (ibid., p. 139).

Under such a central command policy, when there was a sudden drop of overall food supply, the rural areas had to bear the crux of the food crisis since they were only entitled to the residual grain. The result for this was 30 million deaths by slow starvation. Gu speculated that this perhaps was Mao's conscious policy to control the problem of overpopulation in rural China (Gu 1997, pp. 108–109). He further suggested that the accompanying political persecution campaign of the Anti-rightist Movement served the political purposes of mass mobilization against "class enemies" in a crisis situation. The official line was always that food problem was essentially an ideological, not a practical, problem (ibid., p. 97) because, as always, politics was in command to serve revolutionary cause to build socialism.

Gu's re-education experience in Shangcheng convinced him that the kind of socialism practiced by the Chinese Communist Party at that time was to centralize the whole nation's strengths for wartime-like construction so that the privileged minority could live a normal or luxurious life (ibid., p. 37). He pointed out that while the labor cost in the communes was squeezed to a bare minimum, big and small industrial enterprises in the urban areas could be built whatever the costs, with the remaining surplus going to finance the construction of the Great Hall of the People next to the Tiananmen Square of Beijing and other grand buildings for national celebrations (ibid., pp. 70–71). To Gu, such kind of political control and economic centralization was bound to produce abuse of power, grave disparity and corruption. He believed that the kind of "re-education" offered in the hard labor team would bring nothing but moral depravity (ibid., p. 107). In his 29 December 1959 diary entry, Gu mentioned about the last speech made by party secretary Shen to his team members before they were released. In Gu's view, the essential point made in Shen's speech was to warn them that when compared with the overall achievements of the Party, what the members suffered in the hard labor team—i.e. lying, hunger, death—was nothing, and they, after their release, would have to mind their words in the future if they wanted to avoid further political incorrectness (ibid., p. 76).

Gu's 1959–1960 and 1969–1971 diaries contain many entries describing how he and his fellow members in the labor camps suffered political oppression and moral depravity. But two things stand out most clearly that are close to what Arendt describes as attempts for total domination (1973, pp. 437–459) by totalitarian rule.

The first was the so-called thought exposure exercises, in which the accused were constantly required to expose their innermost "evil" thoughts to the Party and to the people in public if they wanted to have a chance for rectification. The accused were also required to participate in the thought exposure exercises against other rightists and to join criticizing and accusing the latter openly. The more actively they participated in these mutual criticisms and exposures, the more politically correct they would be as perceived by the Party (Gu 1997, pp. 15, 20, 24–25). The second was that refusal to admit guilt and even committing suicide by the accused were no escape, for these would only be regarded as proofs that they were die-hard counter-revolutionaries in life and in death. This would likely bring adverse consequences to family members or close colleagues of the accused.

In Gu's 12 November 1969 diary entry, there is a very tragic and moving description of how he received the news about his wife's death in Beijing while he was about to be sent to a labor camp in Henan for re-education. Gu's wife, as we now know, took her own life in April 1968. Gu did not learn about this piece of sad news for over one and half year. Though he had suspected that something terribly wrong must have happened to her, the Party refused to inform him about this for a long time since he was a second-time rightist. This is what was written down by Gu in his diary when the news was broken to him:

> When I learned about this fatal news, I was both surprised and not surprised. I was surprised because since she loved the children so much, how could she leave this "mother committing suicide" label to the family? I was not surprised because she had written a will in the autumn of 1965. And in May 1967, it was then clear that she was no longer strong enough to cope with all the pressure she had to face. When Yang told me about the news, I said, "Why committing suicide? She did not allow me to do that, saying that people like me committing suicide would harm people [who were related to me]. Now, why she wanted to harm people?" All I want to know now is how she died. Zhao said that they would try to find out this for me. I then went to get my portion of meal to eat [in the canteen]. After having eaten a few mouthful of rice, I was overwhelmed by my feeling of great sorrow. I buried my face down in the rice tray and burst out crying. But I still tried to restrain myself, making every effort to finish my meal. I need to stay alive (ibid., p. 160).

Gu's entry here reminds me of Arendt's acute analysis of total domination:

> Totalitarian terror achieved its most terrible triumph when it succeeded in cutting the moral person off from the individualist escape and in making the decision of conscience absolutely questionable and equivocal…when even suicide would mean the immediate murder of his own family—how is he to decide? The alternative is no longer between good and evil, but between murder and murder (1973, p. 452).

Although Gu was spared the fate of choosing between murder and murder in his case, his children no longer recognized him as father. Until his death in 1974, Gu was never to meet them again.

Gu observed that the so called thought exposure exercise was both a divide and rule tactic and a kind of political blackmail, with the former attempting to destroy one's moral self, and the latter to exert control over the accused since if the accused wanted to beg for rectification, they would need to fully cooperate in these exercises (1997, pp. 20, 40). By the same logic, Gu realized that thought exposure must start with admission of “guilt” by the accused in order to stand any chance of being accepted. The more serious the “guilt” and the more “evil” the counter-revolutionary thought and action the accused confessed, the more politically correct one might be (ibid., 24). If we remember that Gu had written over 200,000 words for self-confession (2002), we cannot say that Gu refused to participate in this morally corrupt undertaking. But what was remarkable was that he was not crashed by the attempts of total domination. He remained critical through and through to examine what had gone wrong with an idealistic revolution which he had so enthusiastically embraced when he was a young professional.

From Revolutionary Idealism to Liberal Empiricism

Gu’s post-1949 experience in Communist China had changed his outlook and political belief fundamentally, transforming him from advocating revolutionary idealism to embracing liberal empiricism. “Today”, Gu wrote in 1973, “when people in the names of the martyrs have changed revolutionary idealism into conservative, reactionary authoritarianism, I am determined to embrace the most thorough kind of empiricism and pluralism and to fight against this type of authoritarianism to the end” (2013, p. 187).

Given the vicissitudes of Gu’s life, he did not have the opportunity to produce systematic work on the horrors of totalitarian domination and his conversion to liberal empiricism. Some of his family members (his younger brother in particular) and colleagues nevertheless managed to keep his diaries, private correspondence, reading notes and some unpublished papers safe for publication in the 1990s, which contained many of his important, albeit fragmented, reflections on post-revolution China. When commenting on the 1990s posthumous publication of Gu’s works, historian Yinghong Cheng says, “in his loneliness and having no access to the resources of Western liberal literature, Gu worked to seek answers for the questions related to Marxism and revolution…[t]he result was an unintended crossover between his thoughts and some fundamental liberal ideas…[This] showed the world the fact that even in the darkest years of intellectual suffocation, some seeds of liberal ideas still survived [in Communist China]" (2008, pp. 385–386).

In this concluding section, I am going to summarize some of the more important thoughts of Gu that can be regarded as crossovers to liberalism.

My analysis in the socialist planning section of this chapter should have made it quite clear that when Gu was still a member of the Chinese Communist Party, his idea on economic calculation and on the price mechanism, the law of value and market exchange had already put him more on the side of Mises and Hayek in the theoretical debate of socialist central planning and market reform, though Gu's discussion was very much formulated in socialist jargon. Equally important was the fact that very early on, Gu supported financial and managerial autonomy of local enterprises under a socialist state. Intellectually speaking, the remarkable thing about Gu was that he probably was the first mainland Chinese economist who dared to openly challenge some central tenets of Marxism and Stalinism in economic theory and demanded solid empirical corroboration in order to ascertain the validity of classical socialist thought. Gu was always a fighter against dogmatism.

Gu's reflection on the horrors of the labor camps and the Great Chinese Famine in his diaries not only paralleled Sen's entitlements approach in explaining famines in modern societies, it was also a damaging indictment against the deprivation of the basic rights of the people and the blindness and dangers of a top-down, pre-determined command plan for forced modernization and industrialization. Gu's reflection demonstrated the moral bankruptcy of the attempt to exert total domination over dissension, since total domination required total power, which would easily lead to total abuse of power, encourage hypocrisy, double standards and, in the end, promote corruption of the moral self.

In the last two years (1973–74) of his life, Gu and his younger brother Chen Minzhi[7] exchanged a lot of letters discussing many issues, both academic and political, of common concern. Chen subsequently edited Gu's letters to him into a book and published it under the title *From Idealism to Empiricism* (Gu 2013). In this book, Gu examined the important question of what happened after the revolution. Here Gu alluded to the main character Nora of Henrik Ibsen's famous play *A Doll House*, who decided to take control of her own fate by leaving her husband and family in pursuit of the meaning of life in the then male-dominated Norwegian society. The important question for Gu was: "what happens after Nora has left?"

Gu noted that since the seventeenth century, there had been two revolutionary traditions. One was England's Glorious Revolution and the American War of Independence, the other the 1789 and 1870 French Revolutions. Gu pointed out that the first tradition triggered the development of capitalism, while the latter, bringing two empires and five republics to France, attempted to replace capitalism with socialism without success (2013, p. 136). It was until 1917 that the revolutionary force in Russia was strong enough to smash all opposing resistance to the vanguard party by revolutionary dictatorship. One thing common to the two French Revolutions and the 1917 Revolution was that they both had an ultimate goal, which was to establish an ideal society of socialism on earth. Gu linked the origin of this "ultimate goal" tradition to Christianity, which not only postulated a divine standard of perfection and the ultimate good, but also believed that Christ was destined to return to the world and bring with Him perfection on earth. Following this tradition, the earthly revolutionaries were there to bring the ultimate good of communism on earth too. Gu argued that while to start with, most revolutionaries were democrats, in the end, for the sake of the realization of the "ultimate goal" of the revolution and the ultimate good, they invariably resorted to all necessary coercive means, including sacrificing democracy, imposing dictatorship and Stalinist tyranny to achieve heaven on earth (ibid., pp. 137–138).

While this formulation of the argument here may be crude, it can be regarded as spelling out the folly of an embryonic idea of establishing a kind of modern collective state called "enterprise association" or "teleocracy", as postulated by Oakeshott and Hayek (Oakeshott 1991; Hayek [1978] 1990).[8] Gu's reservation of this "ultimate goal" approach of the revolution is threefold. Firstly, historically speaking, not only the "ultimate goal" has never be realized, the opposite is usually the case. The following, as one example, was what Gu wrote in 1973:

> With the victory of the 1917 revolution, Lenin assured the Russian youths of that generation that communism would be realized within their life time. However many of those youths by now would have been dead. For

> those who are still alive, what they now see is that while the Soviet navy is cruising around the world, their living standard is worse than Czechoslovakia. They also witness the protests initiated by the wife of [the dissident] Andrei Sakharov and her persecution [by the Communist Party]. As for today's definition of communism, it is increasingly inconsistent with and divergent from Marx's definition in *The Communist Manifesto*—"we shall have an association, in which the free development of each is the condition for the free development of all"—to the extent that it is increasingly difficult to understand what it really means (2013, p. 138).

Gu reminded us that while Lenin promised direct democracy after the revolution and set up the soviets in the factories then, sooner rather than later, direct democracy was replaced by centralization of power. The history of the USSR and the People's Republic of China so far had both corroborated the same trend of post-revolutionary dictatorship (ibid., p. 134).

Gu's second reservation is this. At best, the idea of the "ultimate good" cannot be a fixed and static one. Since a static concept implies no further development, it is the end of human progress and is far from satisfactory. In other words, the "ultimate good" in the end is by nature a moving and slippery target that can never be achieved. The more we pursue it, the farther it will move away (ibid., p. 138). Thirdly, Gu found it doubtful if we could demonstrate a priori that the "ultimate good" postulated must be the truth and could not be challenged. Such an assumption could easily be slid into dogmatism (ibid., p. 169). The only way to prove if our judgment of the so-called ultimate good was valid, Gu argued, was to subject it to further empirical test, which must be open-ended, with different possible results and interpretations (ibid., p. 170).

For the above reasons, Gu preferred the empirical and pluralistic approach and argued that the English and American Revolutions, whatever their shortcomings, had embodied the open-ended empirical tradition of freedom and democracy, even allowing dissenting voices and political opposition to exist so long as they subscribed to a common set of procedural rules for peaceful co-existence. For this tradition of revolutions, there is no "ultimate goal" pre-determined. It only postulates a process of continuous interaction trying to make improvements (ibid.,

p. 138). While Gu's discussion here again is sketchy comparing with what Oakeshott and Hayek postulate as "civil association" or "nomocracy" in their discussion of the liberal state in their political philosophy (Oakeshott 1991; Hayek [1978] 1990), it is perhaps not unreasonable to say that what Gu preferred was clearly closer to nomocracy than teleocracy.

Not long before Gu died in December 1974, he said that even Mao accepted the fact that it was inevitable that there were rival factions in revolutionary parties. The liberals would certainly argue that if there is no institutionally accepted arrangements to resolve factional conflicts after the revolution, revolutionary dictatorship by those in power will lead to endless internal political struggles which, in the end, are self-destructive and self-defeating. To them, it is better to follow the American Revolution's example of allowing opposition factions to develop into different political parties and allow them to peacefully compete for office. Gu came to admit that there was no perfect institution as such on earth. The logic of this points to the conclusion that any system that can inherently develop a capacity of self-correction is far better than a system that leads to self-destruction, although how one can bring about this to a particular political community is a different matter.

The publication of Gu's works in the 1990s has revived much interest in liberalism in mainland China (Cheng 2008; Zhu 1999, pp. 151–170; Qian 2017, pp. 667–708, 943–1021; Luo 2017). Gu's courage, foresight and the crossovers of his ideas to some fundamental values of liberalism at a time when China was under totalitarian rule attracted a lot of attention amongst the intellectuals then. They started to reconnect China's political discourse to liberalism, a discourse that had been severed for over four decades since the Communists took over the mainland. This chapter does not have the space to explore what has happened after this revival of interest in liberalism, but it is not without ironies to say that China's present-day policy of supporting economic globalization and international free trade would not have been conceivable if there has been no liberal turn in ideology in the Communist Party's pursuit of socialism with Chinese characteristics. Gu's example, nevertheless, shows that liberalism, even under the most adverse circumstances, could still find its strengths and adherents amongst some of the most outstanding Chinese intellectuals after all.

Notes

1. The development of modern Chinese liberalism is too big a topic for this chapter to deal with. For a critical discussion of the revival of interest in market and classical liberalism in post-war Taiwan and the Chinese mainland, please see (Cheung 2017).
2. According to (Leighton 2014, pp. 133–135), Gu's specialist system of taxation comprised the compilation of an updated and detailed list of commercial taxpayers in Shanghai, on the basis of which he ranked the taxpaying entities and companies into three tiers, from large enterprises to peddlers, with each group having different treatment in terms of taxing their profit or income. Gu instituted several control mechanisms to ensure proper tax payment, with investigation teams set up to double check the companies' vouchers and compared them with the accounts in their books. He also created tax-paying mutual aid groups for taxing small- and medium-sized capitalists. In December 1951, Chen Yun, the leading official responsible for economic policy in Beijing, opined in a central Party meeting that Gu Zhun's method was correct with Chairman Mao's endorsement.
3. The Chinese title of this article is〈試論社會主義制度下的商品生產和價值規律〉. The translation of the Chinese texts into English in this chapter is all done by the author.
4. To the best of my knowledge, there is no reference in Gu's works to indicate that he had the benefit of having read Mises and Hayek in his lifetime, although in his reading notes and diaries (Gu 1997, 2002c), we find that he had read the following non-Marxist economists from the West: Cannon, Pigou, Smith, Keynes, Sraffa, Fisher, Böhm-Bawerk, Veblen, Clark, List, Marshall and Rostow. In addition, Gu did translate Schumpeter's *Capitalism, Socialism and Democracy*, volume two of Joan Robinson's *Collected Economic Papers* and most of Mill's *Principles of Political Economy* into Chinese in the 1960s. But Gu did not manage to finish translating Mill's work due to his persecution in 1968 (Luo 2017, p. 69), and the translated works of Schumpeter and Robinson were published only posthumously after the Cultural Revolution in 1979 and 1984, respectively. In 2 January 1970 entry of his diary, Gu did mention that he had read Oskar Lange's textbook of political economy (Gu 1997, p. 179). But he did not refer to the debate on market socialism between Lange-Taylor and Hayek in the late 1930s and early 1940s there.

5. Other market-oriented first-generation economists at that time include Sun Yefang and Xue Muqiao, both were key economic advisers to Deng Xiaoping during the opening up period after the Cultural Revolution. Sun is famous for being the first Chinese mainland economist who advocated the indispensability of the law of value in socialist economy in the 1950s (Sun 1979, pp. 1–14), but Sun personally acknowledged to his colleagues and students that he was influenced by Gu while developing this idea (Zhang 1993, in Luo ed. 2017, pp. 24–25). In the 1960s, Xue put a lot of emphasis on the price mechanism for macroeconomic management under socialist planning, but Gu went beyond Xue's idea by emphasizing that the price mechanism will have to follow the law of demand and supply closely in order to function well (Gu 2002b, pp. 155–173).
6. Judging from the different writing styles of these two periods of Gu's diaries, I agree with the observation that his 1959–1960 diary was written without the fear of being discovered, while his 1969–1971 diary was written in a way that was mindful of the danger of being used for further political persecution against him. During the Cultural Revolution, Gu was forced to write over 200,000 words of confessional statements (2002a), reexamining his life's "capitalist" and "counter-revolutionary" ideas and actions and how he was prepared to "wholeheartedly" and "thoroughly" transform himself through re-education to become a new man again.
7. Unlike his brothers and sisters, Gu used his mother's maiden name as his surname in the family while his siblings all followed his father's surname.
8. Space limits prohibit me from analyzing the nature of teleocracy versus nomocracy/enterprise association versus civil association in this chapter. For my discussion on this, see Cheung (2014).

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