

Chapter 2

Mao Zedong's Political Economics and Deng Xiaoping's Economics



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Abstract Often described as an “anti-economics” person, Mao Zedong caused the national economy to fall into chaos, such as the Great Leap Forward and Cultural Revolution. He thought that the economy was nothing but a means for his politics. Deng Xiaoping, on the other hand, succeeded in reconstructing the Chinese economy confused by Mao’s politics by displaying his economic thinking. We first analyze Mao’s “political economics”, contrast it with Deng’s economics, and finally evaluate Mao’s political economy from today’s perspective.

Introduction

Mao Zedong was a revolutionist, politician, and military strategist, but he had little knowledge on economics. Often described as an “anti-economics” person, Mao caused the national economy to fall into chaos, such as the Great Leap Forward (GLF) and Cultural Revolution (CR). Ultimately, he must, then, be called a “destroyer” and not a “constructor” in the sense of the management of the national economy. From this perspective, saying that he did not contribute anything to economic outcomes in his era may be natural, leaving only tremendous negative legacies to post-reform China. Following economist Lionel Robbins’ definition of economics as “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses,” it is then doubtful that Mao—who was totally indifferent to the scarcity of resources, whether physical or human—had any sense of economics in his mind. In fact, Mao’s works and speeches do not contain any words related to scarcity (e.g., efficiency, productivity, or (economic) effectiveness). A well-known slogan addressed during the GLF movement, which Mao promoted aggressively, was achieving “greater, faster, better, and more economical results” (*duo, kuai, hao, sheng*). However, he committed to only the first two words: “greater and faster.” His

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“economics” clearly reflects “politics”; hence, Mao’s “economics” involves a unique “political economics,” and the economy was nothing but a means for his politics.

Comparing the economy in the Mao era with that in the subsequent Deng era, the difference in economic outcomes between these two eras is clearly reflected by the difference in the nature of their economics between two big political leaders. Hence, let us first analyze Mao’s political economics, then compare it with Deng’s economics, and finally evaluate Mao’s political economy from today’s perspective.¹

2.1 Characteristics of Mao Zedong’s Political Economics

Mao Zedong’s political economics is outlined in his <<Reading notes on the *Soviet Union’s Textbook of Political Economy*>> (Mao, 1974; hereinafter, Note). Based on this Note, let us summarize and analyze (a) his basic economic thought or philosophy, (b) the economic institutions he idealized, and (c) macroeconomic policies he attempted to implement in the Chinese economy. Hence, what are the features of the aspects that characterized the Chinese economy in his era?

2.1.1 Mao’s Economic Thought and Philosophy

A word appearing repeatedly in Mao’s Note is “contradiction” or “struggle.” For example, he says “there is no movement without contradictions. The society moves and develops usually. The contradiction is a driving force even in the socialist era” (Note: 40). He continues to say that “equilibrium and disequilibrium are the two sides of contradictions; disequilibrium is absolute while equilibrium is relative. Otherwise, productive forces, production relationships, and superstructures cannot develop and will become solid—Contradictions and struggles are absolute, while unity, conformity, and solidarity are transitional, accordingly relative. Various equilibriums in the planning work are temporary, transitional, and conditional; therefore, they are relative. We cannot imagine that a certain equilibrium is not conditional but eternal” (ibid.: 78–79). Certainly, Mao’s philosophy in “On Contradiction” is fundamental in his political economics.

While “economics of contradictions” sounds quite odd to us, practically everything on the earth is in motion if we examine it from a long (or ultra-long) perspective; hence, a stationary state is only temporary. The economic situation is not exceptional. It is moving by the minute so that although an economic plan is formulated after a long process of calculation of a huge amount of data, the plan thus made becomes inconsistent with reality when it is publicized. Hence, is it meaningless to set a plan? Overall, Mao recognized the effectiveness of plan setting. He says “(in socialist countries) as private proprietorship disappeared and planned economy can be organized, the objective laws of disequilibrium can be controlled and utilized to generate many relative and temporary equilibriums” (ibid.: 78). However, if disequilibrium

is regarded as absolute, planning, which is an art of equilibration, would be deemed as only temporary; hence, breaking plans and destruction of equilibrium planning (and praise for such acts) occurred during the Mao era. When Liu Shaoqi and Zhou Enlai strongly opposed any policy to make a hasty progress (*maojin*) in February 1956, Mao got mad and severely criticized their views of “anti-rash advance” at a conference in Nanning in January 1958 (see the previous chapter, Introduction). He further suggested that the pro-rash advance policy entitled “Great Leap Forward,” was almost identical to intentionally creating contradictions and destructing equilibriums. Thus, historically unprecedented great famines and hunger struck the Chinese mainland. Simply and bluntly, the tragedy invited by the GLF was merely a product of Mao’s “economics of contradictions.”

In addition to “contradiction,” another word often appearing in Mao’s Note is “class.” For instance, he says “transition to communism, of course, does not mean a process of one class being overturned by another, but it does not necessarily negate a social revolution, since replacement of one production relationship by another is a qualitative jump as well as a revolution” (ibid.: 42). Moreover, he notes that “even though the class disappears in the socialist society, a problem of ‘vested interest groups’ still remains during the development process” (ibid.: 43). He further argues that “although socialization of the capitalist industry and commerce has been completed, they (bourgeoisie named national capitalists) would launch a crazy counterattack on us if they get a chance. We repelled an attack by the Rightists in 1957, but they attacked us again in 1959 through their representatives within the Party. Our tactics toward the national capitalists is to draw them in and catch them in a trap” (ibid.: 45).²

Mao believed that any persons of any class must be counted on as “the people,” provided that they obey the Party, or more specifically Mao himself, so that their contradictions with the present regime can be solved peacefully as “contradictions within the ranks of the people.” However, when they are opposed to the Party and Mao, their conflicts with the present regime are to be treated as “antagonistic contradictions,” and they must be oppressed by the regime fiercely.

After the GLF, particularly when the CR occurred, Mao began emphasizing a doctrine of “uninterrupted revolution” and urged to continue fighting the “reviving bourgeoisie,” to the extent that he defeated even Liu Shaoqi, Chairman of the State and his sworn friend during the revolutionary days. A series of these acts are based on his peculiar view of class and originated from his philosophy of contradictions. It is he who addressed just before the death “Don’t forget the class struggle.”

2.1.2 Economic Institutions

Mao Zedong adhered to four economic institutions. The first is the incentive system. Mao criticized material incentives severely and particularly emphasized the roles of moral incentives, praising payments-in-kind instead of wages. This seems to reflect the beautiful memories he cherished during the revolutionary struggles until 1949.

For example, he said, “When we were in the base areas, we carried out the payment-in-kind system, but the people were healthy and never struggled for better treatment. After liberation, we innovated the wage system and evaluated workers by ranking, and many problems emerged. Until the initial stage of liberation, we continued living an egalitarian life, but we made efforts in our work, fought bravely, and relied on the revolutionary spirit, not on the material incentives at all. In the latter period of the second civil war, we happened to be defeated or to win victories, but we found that the victory or defeat in wars did not depend on how much material incentives were provided but on whether our political and military lines were aligned or not. These historical experiences are extremely significant when we try to solve any problems surrounding socialist constructions” (ibid.: 82–83).

The second is ownership. As a Marxist, Mao strictly adhered to public ownership, as he considered that only public ownership was fundamental for developing production. In his Note, he highlighted that “Taking away the political power by winning public opinion, then solving the ownership issue, and developing productive forces greatly—this is a general law” (ibid.: 47–48). Basically, he considers that for productive forces to be developed first, the superstructure must be transformed (seizure of the political power) followed by ownership (relinquishing private ownership, that is, establishing public ownership). This contradicts the logic of historical materialism. He strongly insisted on agricultural collectivization as he believed that relinquishing private land and capital ownership could enable large-scale production, leading to much higher productive capacities than under individual farming systems.

The third is regional decentralization. This idea is derived from his speech “On the Ten Great Relationships” (hereinafter TGR), as discussed in the Introduction. After that speech, in a meeting with the Central Political Bureau in April 1956, Mao asserted that China began departing from the Stalinist type of economic system adopted in the Soviet Union and started searching for economic policies appropriate for its own conditions. In that speech, he stressed the importance of “two positives,” namely, the positivism of central and the regional economies. China relinquished a part of central state-owned enterprises (SOEs) to the hands of the regional governments (or joint management by both central and regional governments). The Introduction showed that regional decentralization was introduced and reinforced in 1969–1970, to the effect that almost all central SOEs were “sent down” to regional authorities.

This sort of regional decentralization was a natural policy in essence for a country with a vast area and a huge population like China. This had a significant impact on the subsequent Chinese economy. Most importantly, it created a similar industrial structure in every region, which, in turn, became one of the causes of harsh inter-regional competition. By the same token, it encouraged each region to be self-sufficient in association with the doctrine of self-reliance referred to below.

The fourth is the People’s Commune system, wherein the three previous institutions are included substantially, and which Mao imagined as a utopia (see Chaps. 4 and 5). In his youth, Mao is said to have been deeply impressed by a movement to create “New Villages” driven by a Japanese novelist, Mushanokoji Saneatsu and also influenced by Kang Youwei’s ideal of “Great Harmony” (*datong*), in which he dreamed of an egalitarian society that was free from private proprietorship and

any pecuniary motives. When he discovered a commune-like rural society in Henan Province in the summer of 1958, which was characterized by slogans such as “large in size and collective in nature” (*yida ergong*), “combining industry, agriculture, commerce, schools, and militia” (*gong, nong, shang, xue, bing*), and “integrating government administration with commune management” (*zhengshe heyi*), he must have been preoccupied with the idea that a shortcut to a “communist society” was found and his fantasy was going to become a reality in the near future.³ Mess halls (communal dining halls) were established in People's Communes, and any member could enjoy free meals. This was praised as the system had realized a part of the communist principles, i.e., “distribution according to needs.”

However, reality was unforgiving. When the Great Famine (as covered in the Introduction after the GLF movement) occurred, the basis of the People's Commune system began to collapse in many areas, typically in Anhui Province, where the mess halls were closed or abolished, and the collective agricultural production system was retreated to the pre-commune stage, and even decollectivized so that individual farming systems were revived in certain villages. As people had to acquire grains at all costs to live, they depended on the activeness inherent to the individual farming system. They were not provided with enough food grains to eat even though they were given the dream of communism.

2.1.3 Macroeconomic Policies

The economic policies that Mao Zedong discussed in the Note and emphasized in his speech on the Ten Great Relationships are three. One concerns the industrial structure, the second is the accumulation rate (savings rate), and the third is related to technology.

Mao's “economic policy” on industrial structure can be summarized as the establishment of an appropriate balance among agriculture and the light and heavy industries, but ultimately prioritizing the heavy industry (as discussed in the Introduction). He criticized such a heavy industry-oriented policy as adopted by the Soviet Union, pointing out that they treated light industry lightly and in reality neglected agriculture. Mao stated the following:

Giving priority to the development of production means is a common economic law for extended reproduction in any societies. A capitalist society cannot extend its reproduction without prioritizing the producer goods industry. During the Stalinist era, they especially emphasized heavy industry, consequently neglecting agriculture----By developing agriculture and the light and heavy industries at a high speed simultaneously, we can develop the heavy industry rapidly and improve people's life moderately at the same time. Experiences of the Soviet Union and China prove that underdevelopment of agriculture and light industry is unfavorable for the development of heavy industry (ibid.: 72–73).

The theoretical and historical background of prioritizing the development of production means (or heavy industry) is discussed in Sect. 2.3 of the Introduction. As stressed in Chap. 8, this policy was originally intended to strengthen national

defense. What interested Mao most was how to protect the newly born nation as well as his own power. To achieve this objective, it was necessary to strengthen the military power. For this purpose, the production of bullets, canons, tanks, warships, and military planes was indispensable, which primarily required iron and steel. Therefore, the development of heavy industry, particularly steel production, is necessary. This simple and clear logic was the basis for his political economy. Agriculture and light industry were requisites, because keeping people's lives by securing their minimal living standards was vital before maintenance of the national defense. Additionally, the fact that the Soviet Union succeeded in defeating Nazi troops under the heavy industry-oriented policy—plus the authority that Stalin had established in the late 1940s among the socialist countries—made this policy become an absolute “economic law” for those countries to learn.

To obtain sufficient funds for heavy industries, cheap labor force and grains were required. Mao's policy of capital accumulation emerged in this regard. He says

Developing agriculture and light industry and accumulating funds for the heavy industry are favorable for the people in the long-run—Lenin and Stalin had said that peasants had to pay tribute to the state during the period of socialist construction. A majority of our peasants are paying “tribute” actively while only 15% of rich middle peasants are unhappy and opposing the GLF and the People's Commune (ibid.: 110).

He continues,

The share of accumulation in the national income was 27% in 1957, 36% in 1958, and 42% in 1959, and we will be able to accumulate at 30% or more in the future. The major issue is the overwhelming development of production, and only if we could increase production, we would face a selection either to extend the rate of accumulation or to improve the living of people (ibid.: 110).⁴

The above citations clearly demonstrate that from Mao's perspective, the accumulation itself was far more important than “the living of people” or their consumption. Minami Ryoshin named this policy “forced accumulation” (Minami, 1990). To implement these kinds of policies, peasants were required to pay “tribute” to the state. For this reason, China exiled merchants from the countryside, introduced a forceful grain procurement system in 1953, and decided to collectivize agriculture. This was done to enable the state to control everything about grain products, from production and sale to setting the prices. China introduced these policies in accordance with the Preobrazhensky model, as described in the Introduction.

The state procures food grains from peasants at government-set low prices, while simultaneously transferring the right to sell grains from individual peasants to collectives called Elementary Producer Cooperatives in the beginning, sell those grains to the cities, and then provide urban workers of SOEs who could live with low wages with cheap grains. Hence, the state could obtain more profits, which would then be stored in the national treasury. Thus, an interlinking and self-propagating mechanism among food grains, wages, profits, and budgets was created during the Mao era. The economic growth mechanism at that time could be simplified as so described. Mao repeated to emphasize “agriculture as a basis” (*nongye wei jichu*) and “take grain as the key link” (*yiliang weigang*); however, his belief of this kind originated not from

his family origin as a peasant, nor from his conception of the rural sentiment, but from an idea of such an economic mechanism as well as the doctrine of self-reliance.

The third and last part is his technology policy. In his Note, Mao recommended “indigenous methods (*tufa*) should be parallel with modern methods (*yangfa*)”; large-scale should be parallel with small and medium one.” Basically, he insisted that China should not depend on modern technologies and large-scale enterprises alone, like the Soviet Union, but it should attach more importance to traditional technologies and small and medium-scale industries, adapting to the Chinese real conditions. He says

In 1959, a half of the pig iron output of 20 million tons was produced by small and medium scale firms. In the coming years, such small-and medium-scale technologies will be key in the development of steel production. Meanwhile, small-scale firms will change into medium ones, many medium ones into large-scale ones, backward firms into advanced ones, and indigenous technologies into modern ones. This is the objective law (Note: 99).

This choice of technology in the development process reminds us of such an issue of “intermediate technology” or “appropriate technology,” which attracted international attention in the 1970s (see Chap. 10). Such technologies are easy to learn and can contribute to solving employment problems in developing countries. Moreover, as Mao highlighted, they could serve a gateway to more advanced large-scale technologies. The “backyard furnaces” that flourished in every corner of the Chinese mainland was a typical example of such technologies.⁵

Certainly, such technologies are undeniably significant from a developmental perspective. For example, it may be less expensive and more effective to build 100 small as well as mud-made dams or reservoirs (if conditionally possible) for most Chinese villages than constructing a large concrete dam. However, not all technologies are classified as small to large or backward to advanced. For example, in the case of iron, pig iron produced by the backyard furnaces became nothing but scrap iron, as it is theoretically as well as practically impossible to make high-quality pig iron using substandard small furnaces. Laborers mobilized nationwide in the steel-making campaigns were said to be as many as 90 million in number. Additionally, valuable forests were cut down in many places for these blast furnaces, making many mountains bare, the railroads for transporting iron ore and coal were disrupted, but the iron thus produced was unusable. Therefore, enormous amounts of human and material resources were wasted for this tremendous scale of national campaigns.

2.2 Mao's Economic Goals

We have summarized the characteristics of Mao's “political economics” from three perspectives: thought and philosophy, institutions, and policies. Generally, he seemed interested in four economic aspects. The first was high-speed development, or the “great leap forward” of an economy. He became furious about the criticism by Liu Shaoqi, Zhou Enlai, and others of his “rash advance” doctrine, so he executed decisively rash policies. This was based on his firm belief that China would be able to

grow much faster than capitalist countries as its economy was socialized. According to Marxist theory and historical materialism, Mao firmly believed that socialist economies without private ownership, along with large-scale units, were definitely superior to their capitalist equivalents. He then dreamed that China would be able to approach the ideal of “communist” society that Marx had indulged in. When China was flooded with exaggerated figures of output during the GLF, he must have been carried away by such a communist dream for a while.

Mao continued to harbor ambitions to make China catch up with the United States in the future. In October 1955, he addressed a round-table talk on “an issue of socialist transformations of capitalist industry and commerce” as follows:

Our objective is to catch up with the United States, and even surpass them. They have population of only one hundred million, but our population is about six hundred million. So, we should be able to catch up with them. ...How many years are necessary for that? It depends on everyone's efforts. It needs at least 50 years, or 75 years, that is 15 five-year plans. We cannot take out frustration until we can catch up with and surpass the United States someday (quoted from Shen, 2008: 16).

This statement seems to reveal his true feelings. He must have felt, “China is backward, so we have been mocked by foreigners. However, we are full of not only the population, but also natural resources. Therefore, if we strive to catch up with the United States, we will not be looked down on anymore.” How can China do so economically? His answer was simple, “rapid growth, great leap forward!”⁶

The second is a goal of self-reliance of the Chinese economy. This idea originated from his experiences during the past years of revolutionary struggles. When Mao's troops were surrounded by the Nationalist (Kuomintang) army or pursued by them, and insufficiently or rarely supplied from outside with necessary materials, they had to overcome various hardships and kept the spirit of self-reliance in mind. In his speech, he told his people that “we should learn how to do economic works” (January 1945), and he said

We cannot learn from the Nationalist Party which was not active by themselves, mainly relying on foreigners, and depending on foreign countries even in supply of daily necessities like cotton cloth. We insist on self-reliance, and depend all on our own efforts and creativity of the soldiers with the people (Mao, 1964: 1015).

Clearly, it was during the days of the intensified Sino-Soviet dispute since 1960 that this policy was especially emphasized in China. As Khrushchev refused Mao's request to provide the technology for developing atomic bombs, China decided to develop this technology by themselves. Moreover, this policy was adapted while targeting domestic regions, which were requested to supply grains self-sufficiently, and to establish comprehensive and integrated industrial systems in their own areas.

Third, Mao stressed moral incentives, which were essentially anti-material incentives as discussed, or subjective activity, which may be equivalent to voluntarism in philosophy. Ding Shu says that “Mao's thought” can be characterized in part by his blind belief that “spirit can be transformed into material” (Ding, 1991: 12). Mao believed that once people's thoughts changed, their power would have no limits. He believed that if people awoke and stood up, they could perform miracles. He

was confident that only by motivating the people and transforming their energy into material forces can the Communist Party maintain and develop poor bases during the revolutionary struggles, and they finally gained victory over militarily stronger nationalists in the civil war. After the founding of the country, they promoted a grand scale of construction by mobilizing a tremendous amount of labor force. Robert Guillain described this as “six hundred million ants” (Guillain, 1967); people were used instead of the “insufficient” machines. Activities of this kind are against the background of Mao's thought, as illustrated above.

The fourth is socialization. Mao pushed forward with class struggles against the “class enemies” with bitter hostility, evaded individual farming by peasant families, while bearing the goal of totally nationalizing People Communes with collective nature, and adhered to egalitarianism and abolition of markets. All of these ideas and acts are derived from his pursuit of classical socialism. As a classical Marxist, he assumed that socialism is identical to public ownership, which enables enlargement of scale (which in turn brings about the development of productive energy), while private ownership enables the survival of capitalist powers, which may put society in danger of reviving anti-revolutionary forces.

From a different perspective, we can say that Mao's political economics is lacking in the realistic and “economic” viewpoints with regard to interconnections among various institutions and elements consisting of the overall economic system and mechanism. For example, as motivating people in the long run with moral incentives is impossible, rapid economic growth cannot be achieved. Allocating resources effectively only with the self-reliance principle; thus, it is difficult to introduce and diffuse new technologies, and a high rate of growth cannot be attained. He proposed maintaining a balance among agriculture, light industry, and heavy industry, while insisting on the priority of heavy industry. This policy was necessary for better industrial linkages and structures to secure sustainable rapid growth. However, he actually disproportionately emphasized accumulation, and hence neglected the consumption, particularly that of the peasants. If the abovementioned three aspects, i.e., economic thought, economic institutions, and economic policies had been linked in a balanced way, such a reckless rash advance policy as the Great Leap, and such anti-human institutions as the People's Commune would not have appeared in China. Basically, Mao's economic thought, more specifically his economics of contradictions, destroyed a rational linkage between institutions and policies.

On the GLF, Li Rui, who had acted as a secretary for Mao and was deeply involved in the movement, retrospectively described a dreamer called Mao Zedong in the following manner:

The GLF and the People's Commune movement was a practice of Mao's thought of socialist construction, colored with his strong idealism late in life. During the movement, he had often told me about his own social fantasy... (He said) on the whole, a utopian fantasy of the people in the past would be realized. Moreover, he proposed theoretical perspectives to realize this beautiful future, such as breaking down the bourgeois rights, removing commodity-money relations, and abolishing the eight-grade wage system⁷ and private farming economy, etc. (Li, 1999: 325).

If his ideal remained as a dream, both the GLF and CR would not have failed. However, he tried to recklessly fulfill his dream, and nobody could stop him. This was because it was only Mao who could define what was correct, what was right, and what justice was.

2.3 Deng Xiaoping's Economics

Describing Deng Xiaoping's words and deeds as "no big logic and slogan, no poem-like words, and no flowery theory," Zhang Wenkui accurately depicts the character of a realist Deng who was inclined to "adapt himself to the realities" (Zhang, 2018: 205). Mao Zedong, who attempted to change people's minds and spirits (superstructure) versus Deng Xiaoping, who emphasized productive forces (infrastructure), rather than mind. A deep divergence of thought between these two leaders existed.

Deng's famous words are "It does not matter whether a cat is black or white, as long as it catches mice." If we translate these words into political economic terms, he would have said "It doesn't matter whether a system is socialist or not, as long as it works to raise production and income." When the People's Commune that Mao promoted failed to prevent catastrophic famines and awful hunger in 1959–1961, a spontaneous move to decollectivize agriculture and revive individual farming in certain rural areas found success. Deng tolerated this move on the basis of the "black cat, white cat" doctrine. Certainly, Deng's pragmatism was not limitless but permissible only within the framework of socialist principles and the Communist Party regime. However, the pragmatic doctrine must have harmed the socialist ideal that Mao had long dreamed of, as it became one of the causes that he fell into disgrace in the CR.

Hua Guofeng, Chairman of the Party after Mao's death in 1976, was demoted afterward by Deng and his colleagues through bitter debate inside the Party. Deng criticized and defeated Hua, who had insisted "all that Chairman Mao has told is correct," by using his pragmatic logic, wherein the "only practice is the single standard to testify the truth." Consequently, he succeeded in terminating Mao's uninterrupted revolution and class struggle theory to shift emphasis to the economy rather than to politics. He also began introducing the two essential capitalist institutions most effective for economic development, specifically private ownership and market mechanism, to the Chinese economy, gradually but on a large scale. Further, he proclaimed a new policy called "become prosperous first" (*xianfulun*), that was a policy to accept the widening income disparity, which is just contrary to the supreme ideal of socialism. From Deng's perspective, what Mao had attempted to implement must have appeared to be nothing but "poor socialism," namely, to construct a "poor but equal society." He insisted, "it is not true socialism. True socialism must be a system that is far more productive than capitalism, as Marx and others have assumed." Basically, he denied the theme of Mao's political economics and returned to classical Marxism and stated the following:

...the tasks that socialism must do are many, but the most fundamental one is to develop productive forces. On the development of such forces, socialism can achieve superiority over capitalism and prepare the material foundation for constructing a communist society (Deng, 1993: 137).

Contrary to his claims, he did not really understand at the beginning of the post-reform period that only the market can be effective in the place of planning. In the 1980s, many economists in China were spending much time in irrelevant discussions on an issue about planning vs. market, that is, which is necessary for a socialist economy, planning, or market, how to combine these two mechanisms if both are required, and how to balance them to make the work more effective. From the perspective of conservative theoreticians such as Chen Yun, a socialist economy must be based on public ownership and planning. Therefore, it can use markets as a complementary tool, but it must adopt a planning mechanism as a major engine. Chen advocated a metaphor of "birdcage," saying that a bird (an economy) will be dead if it is bound tightly (with planning), but it may fly away if it is free (in the market). Therefore, it should be kept in a cage (planning mechanism) with certain free space (market), to allow us to control it effectively.

However, Deng Xiaoping, far more realistic than Chen Yun, seems to have realized that a bird cannot fly freely inside the cage. He then accepted the idea that China should establish an economic system with the market as the main mechanism. In the southern tour speech (1992), he stated the following:

...the difference between capitalism and socialism does not lie in whether market or planning exists. There are markets in socialism, too, and there is also planning control even in capitalism ...both planning and market are required. Without markets, we cannot get information about the world, so we will have to content ourselves with the backward status (Deng, 1993: 364).

Thus, he encouraged cadres not to fear risks but to bring in the market system. His new policy of "socialist market economy" was then created, enabling China to abandon their stagnant economic situation since the June fourth incident (Tiananmen Square protests) in 1989, and to realize the subsequent high speed of economic growth attracting worldwide attention. After all, marketization saved the Chinese economy and drove it to leap forward. Stockholding and market systems began to be introduced, and the people were absorbed in stock prices every day. The masses began seeking primarily economic interests, as was typically indicated by a Chinese phrase "put money above all" (*xiangqiankan*), which became very popular among the people at that time.

Contrary to the abovementioned four substantial institutions and policies characterizing Mao's political economics, Deng's economics contained the following distinctive features:

First and foremost, Mao's economics of contradictions was regarded as not only ineffective but also harmful to the economy, since Deng emphasized stability. However, he was not a classical planner prioritizing economic equilibrium absolutely, but supported such institutions and policies that accepted disequilibrium to a great extent as markets and pragmatic thinking in policy-making, which is best

represented by the phrase, “groping for riverbed stones to pass a river” (*mozheshitou guohe*). That is, Deng recommends that when one implements a policy, one must experiment with it first in certain areas or organizations, and only if one finds it effective, one can spread it to other areas or organizations. After his era started, many new policies were adopted and spread nationwide in this way.

Second, Deng Xiaoping neglected totally or denied Mao’s subjective initiative theory. There was no element of thought or spirit in his economics from the beginning. As a literally “materialistic” leader, he believed that “development is the most important thing (*yingdaoli*),” therefore he overly prioritized materialistic growth and wealth. According to Zhang Wenkui,

Humans and humanity must be transformed if we want to perform Mao’s economics. In Deng’s economics and his economic policies, on the other hand, such transformations should be performed moderately. This is the main difference of economics between these two persons (Zhang 1993: 178).

Basically, Mao believed idealistically that generating unlimited power by transforming human thought was possible, while Deng believed firmly as a realist leader that activating the economy only by stimulating human original desires was impossible as he understood that human thought could not be easily changed. We can find an essential difference between idealist Mao and realist Deng.

For him, it was natural to have discovered the market mechanism and income disparity as efficient tools for economic development as these tools could stimulate such human desires effectively. Moreover, as he had admitted, he was not studious, did not read classics of Marxist theories, and was an agitator or organizer in his youth. He probably had not been interested in what Marx or Engels discussed. Paradoxically, as he had neither aptitude for theoretical thinking nor enough knowledge about Marxism, he was able to lead the Chinese economy to a realistic and pragmatic road toward rapid growth. As a result, “greedism,” or mentality of thinking economic rewards as a key, which Mao had hated during his era, now became the social ideology all over the society once he gained the absolute political power.

Third, Deng denied Mao’s self-reliance doctrine. Considering systemic reform, Mao promoted economic reforms to some extent in his own way. Regional decentralization, as we have taken up above, is one such example. However, Maoist China did not open up on such a scale as in the post-reform period. On external trade, China opted for an economy with self-sufficiency during the Maoist era. Additionally, China was more negative in accepting foreign direct investment (FDI) then, as it recognized that the acceptance of FDIs would lead to the domination of the economy by foreign capitalists.

However, when Deng gained power, China changed its external policy toward opening-up. This expanded the external trade rapidly and accepted foreign capital very actively. These two policies were closely interrelated to the establishment and extension of Special Economic Zones and Development Zones. After Deng’s death, the word “opening-up” should be translated into globalization, and a large-scale outward foreign direct investment from China has been underway.

Deng abandoned the previous self-reliance policy as he understood that it was an obstacle to accelerating economic development. As the comparative advantage theory in textbook economics tells us, free trade or international division of labor can increase the efficiency of allocating domestic resources, enabling an economy to grow faster than self-sufficiency or self-reliance.

Clearly, the change in the international environment allowed China to change its external policies. In the Mao era, China had long belonged to the Socialist Bloc with the Soviet Union as the leader, but as the Sino-Soviet conflicts intensified, it had to face military pressures from both the Soviet Union and the United States, and Mao had to choose a self-reliance policy. However, in the Deng era, as international tensions of the Cold War were gradually reduced and Sino-US diplomatic relations were established, China's international environment was improved to the extent that it could be associated with the world peacefully. In 2001, China entered the WTO to compete extensively in the world market, gaining the maximum benefits of free trade. In this type of era, self-reliance has become an outdated policy, setting the spirit of leaders aside.

Fourth, China began seeking efficiency while also emphasizing growth. In this sense, we can say that full-fledged true economics finally started to work in this era in China. Although some large projects such as the Sanxia (Three Gorges of the Yangzi River) dam construction were launched even after the marketization proceeded, huge labor-intensive projects such as mobilizing "600 million ants" during the Mao era were no longer conducted, because they found that labor was not free and constructing those projects by substituting machines for labor were far more efficient not only economically but also technologically. Based on Deng's pragmatism, China began actively introducing various management methods, whether capitalistic or not, if they were really effective in business. After the 1990s, US, European, and Japanese books on management control were translated into Chinese and published consecutively.

This type of policy trend demonstrates that China changed the definition of socialism in practice, giving up the ideal of realizing a traditionally imagined socialist society. Secretary General Zhao Ziyang addressed a theory of "primary stage of socialism" in the Party's 13th Congress in 1987. Simplifying this theory, it can be summarized as follows, "China is still very poor. Socialism must have passed the stage of highly developed capitalism, as Marx and Engels predicted. If so, China should transfer to the socialist stage after it becomes rich." However, clearly the richer an economy becomes, or the more developed its division of labor becomes, the farther it departs from socialism in the original Marxist sense. Therefore, this theory can be justified only under the doctrine of "Chinese style of socialism." It is the Party's central committee who defined socialism in China. Officially, their socialism is called now as "socialism with Chinese characteristics," but actually and more appropriately, "capitalism with Chinese characteristics" came into existence in this country.

Let us recognize again that Mao Zedong was a dreamer who admired Mushanokoji's ideal of "New Village" and advocated a fantasy of Kang Youwei's "Great Harmony". To put this the other way around, we should say that only if Mao was a dreamer he could dream of the Chinese Revolution and strive to realize fantasy

in his mind. Meanwhile, Deng Xiaoping was a thorough realist, so he reconstructed the economy, which Mao had destroyed harshly, in his realistic way to return it to the normal course of development.

Examining the two eras of China's modern economic history easily reveals why the Chinese economy was unable to accelerate (and rather faced serious fluctuations) during the Mao era, as observed in the Introduction. Under the economics of contradictions, stable growth cannot be expected, and against the background of moral incentives and self-reliance policy, wherein external trade and foreign direct investment were avoided, dynamic economic development was unexpected. However, Deng boldly brought in market mechanisms and private ownership, stimulated people's materialistic desires, implemented the opening-up policy, and introduced foreign technologies, capital, and information through interchanges with the outside world. These policies became a significant lever for the long-run high rate of growth in post-reform China.

Conclusion: Evaluating Mao's Political Economics

As referred to above, Mao's speech on the "Ten Great Relationships" prompted China to construct its own socialist model. What must be highlighted here is that a major part of the "great relationships" had already been addressed in the 20th Congress of the Soviet Communist Party in 1956. The platforms proposed in this Congress include the following policies: (1) to develop light industrial production rapidly, on the basis of the development of heavy industry as a key; (2) to overcome the backwardness of agriculture, thereby reducing disequilibrium of agro-industrial relations; and (3) to transfer of many central enterprises to the hands of local governments. Obviously, these policies are identical or similar to those addressed in Mao's TGR (Shen, 2008: 87–88). As the above platforms were publicized earlier than the TGR, assuming that Mao Zedong proposed an idea of the "Ten Great Relationships" with reference to the Soviet platforms is natural. Clearly, the policies described in the platforms were nothing but goals, regardless of whether they could be realized or not. In fact, the Soviet-centralized system continued substantially even after the Congress, and a large quantity of grains needed to be imported, and agriculture was still Achilles' heel for the USSR economy.

Thus, Mao's economic policies and thoughts were not as unique as we have imagined so far.⁸ Mao Zedong himself said, "We proposed the idea of Ten Relationships and began presenting our own line of construction. In principle, it is the same as that of the Soviet Union, but different in their ways" (Li, 1999: 514). According to Li Rui, "we did not discover a new development model. We were on the same rail of the planning system as before. This is what Mao said <same as that of the Soviet Union in principle>" (ibid. 515). Shen Zhihua stated that "from Mao's eyes, the Stalinist model was not bad, but its way of performing was problematic" (Shen, 2008: 146). In fact, Mao was essentially a Stalinist.

In the final analysis, the uniqueness of the Mao model lies in his emphasis on moral incentives and class struggles. He was not very interested in such words as

technologies, machines, and productivity as added to the platforms of the Soviet Communist Party's 20th Congress. The "Relationships" from the sixth to the tenth he picked up in the speech TGR are, that between the Han nationality and the minorities, that between the Party and non-Party, that between revolution and anti-revolution, and that between right and wrong. This implies that he had a keen interest in politics and thought. It seems to imply, too, that politics, rather than economy, and more specifically the holding of powers, was his first priority.

Mao Zedong's spiritualism advocated and promoted changing human spirits, stimulating people's enthusiasm, or relying on their zeal, appears to be working effectively as long as we read the official documents published then. However, this doctrine was frail in reality. This is obvious from the fact that people's minds changed drastically as soon as reforms and opening-up as well as marketization policy started.

Mao's dissatisfaction with the planned economy that he showed in the 8th National Congress of the Chinese Communist Party did not target the system itself, but it illustrated his discomfort in "harmless (*siping bawen*)" balance theory (Shen, 2008: 347). What he emphasized is "stimulating regional activism, breaking through balanced plans by the mass movement, making up for deficient funds, and creating miracles as well as rapid growth" (*ibid.*). After all, he drove the economy by means of administrative orders, moreover in an anti-balancing way, namely, based on his "economics of contradictions." Meanwhile, believers in planned economics, such as Liu Shaoqi and Chen Yun, were not necessarily able to understand the planned economy imported from the Soviet Union. Hence, as they were completely subservient to Mao's, they could not imagine any model of economic system more competitive with Mao's, and hence promoted the GLF policies.

After Stalin was openly criticized in 1956, a new idea of decentralized socialism incorporating market mechanisms such as the Brus model emerged in Eastern Europe, leading to the new designs of economic reforms in Hungary and Czechoslovakia in the 1960s (See, for example, Nakagane, 2010). However, in China, Mao attempted to promote administrative regional decentralization rather than market decentralization. This idea was based on his mistrust in the market and the idea that it would bring about disorder and non-planning. How he did not trust the market law—namely, the supply and demand coordination mechanism through prices—is demonstrated typically in the following view:

The value law (read it as market law—the author) can be used as a tool for planning work, but it cannot be an important basis for planning. We executed the GLF, not based on our needs of the value law but on the necessity of expanding our production, which is the basic law of socialism—The reason why no crisis occurs in socialist economies is not that we could not grasp the value law, but that ownership is socialized and the basic economic law of socialism, namely, nation-wide planned production and distribution is implemented, and there is neither free competition nor anarchical situation (Note: 86–89).

The Note was written amid the turmoil generated by the GLF. Paradoxically, it is just the GLF policies promoted by Mao that the "anarchical situation" was brought about in China. Apart from this paradox, his view that socialism is planned while capitalism is anarchic because of its market system is a perfectly classical Marxist understanding of economics. It neglects a diversity of capitalism, such as

Keynesian economics or welfare state doctrine, as in North European countries. Mao insisted that holistic and planning viewpoints not subject to the market law was required from the long-run perspective, but he did not notice or was not able to understand the essential nature of market economies, that is the “contradiction,” or spontaneous dynamic inherent to the market, when he developed the “economics of contradictions.” In addition to Mao, prominent and active reformist economists in Eastern Europe then, such as W. Brus in Poland, J. Kornai in Hungary, and Ota-Sik in Czechoslovakia recognized the importance of the market for socialist economies as an indispensable mechanism for demand–supply coordination. However, they did not recognize the dynamism and creativity produced by the market, such as entrepreneurship and animal spirits, as stressed by Joseph Schumpeter and J. M. Keynes, respectively. It was Deng Xiaoping who discovered in effect such activeness as inherent to the market while proposing a new doctrine titled “socialist market economy” during the post-reform period, particularly since 1992.

Notes

1. This chapter is a revised version of Chapter 7 “Mao Zedong’s Political Economics—Anatomy of His Economics of Contradictions” in Nakagane (2021). Refer to the book’s Epilogue on my overall appraisals of Mao’s thought and behavior.
2. “An attack by the Rightists in 1957” means a historical incident that democratic people and students criticized the Party leadership. “Representatives within the Party (in 1959)” refers to Peng Dehuai and others who criticized the GLF policies, but were finally attacked severely by Mao in the Party meeting at Lushan.
3. This sort of recognitions is expressed in the “Beidahe Resolution,” adopted by the Central Committee of the Chinese Communist Party at Beidahe in August, 1958. While it is uncertain whether it was Mao who first raised this view, he must have used these kinds of expressions in his speech in the meeting. In Chinese, “commune” is translated into *gongshe* (corporation). However, “communism” was translated into “public-property-ism” (*gongchan zhuyi*). Consequently, a belief appeared that if only property was publicized, communism could be realized.
4. The “rate of accumulation” is a term of Marxist economics, different from investment rate of the SNA terminology, which is used even in post-reform China. The investment rate measured by dividing capital formation by gross domestic product is 25.4% in 1957, 33.5% in 1958, 42.8% in 1959. These figures are almost equal to the rate of accumulation in corresponding years. Incidentally, the investment rate in 1960, when catastrophic famines and hunger had already happened, is 38.1%, surpassing the level of normal year 1957.
5. There existed even mud-made furnaces with a capacity of only one cubic meter.
6. The year 2030 would mark 75 years after Mao made this speech in 1955. There are various forecasts of China’s GDP in the future, but if China could continue to grow at today’s speed, it may catch up with the United States, sooner or later, as Mao predicted. One of the recent predictions shows that China will be able to overtake the US in terms of aggregate GDP value probably in 2028.
7. In the Mao era, urban workers were generally ranked by eight grades, from grades 1 through 8, which is the highest for the oldest and the most skilled but few workers.
8. We should be reminded of the fact that Mao’s paper “On Contradiction” was essentially a copy of a philosophical textbook published in the Soviet Union in the 1930s. We believe his theoretical

contribution should be regarded as very limited, apart from his military theses represented by the “guerilla war” theory. Mao was mostly a man of practice, rather than of theory.

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