

## The Chinese Economy with Dr. Michael Kulma (Part 2)

**John Major:** Now, in the Cultural Revolution, you had this phenomenon of workers' committees set up to run industry and to run communes. What was the actual economic impact of the Cultural Revolution?

**Michael Kulma:** Well, this is not a pretty picture that we are painting at this stage of the game, and I think with good reason. As I talked about in the beginning, from 1911 to 1949, we see a series of different things that have impacted China, largely in the negative zone. [The Cultural Revolution] is another major disruption. Your most recent question ties in with what you suggested earlier about these issues of reporting and planning, the difficulties that not just a planned economy creates, but tying that in with the other revolutionary fervor going on at that time, the downgrading of intellectuals across the board—by that I don't simply mean academics, but I mean within the different sectors of society. Taking those things into account, you see the major issues related to the Chinese economy. That doesn't mean per se that there wasn't any growth in the Chinese economy. Whether or not we are looking at it from a Gross Domestic Product (GDP) perspective or increases in production on the agricultural and industrial production side, there were increases. There was growth in the Chinese economy; it just wasn't growth on the scale ([taking into account] the growth of population and various other things on the demographic side within China) that was necessary to move China into a more developed trajectory. It wasn't nearly on pace with what you were seeing in the rest of East Asia, whether it was Japan, or what was beginning to happen in South Korea, Singapore, or various other places in the region. So China is still left further behind [whether from] an external perspective [or] on the internal side. There was growth. It wasn't what we look at when we take a look at the North Korean economy in the 1990s, as a result of both policy related issues and floods and famines. We don't see quite that level of devastation.

**Major:** It is very easy when you look at—particularly the period under Chairman Mao from 1949 to his death in 1976—it's very easy to look at the failures. Is there anything that you would point to as a success or something that genuinely was a model for developing economies during that period?

**Kulma:** The mere consolidation of power and the mere consolidation of the economy in some ways. The plan may not have worked extremely well at different points and times: you had these disruptions with the Great Leap Forward and the Cultural Revolution. But the mere consolidation of these different processes and bringing the country together and creating one China again—I think is something that did allow for this growth, as I have suggested. Even though the Cultural Revolution and the Great Leap Forward did disrupt things, there was growth over the course of time. It wasn't a complete disaster over the course of time. There were improvements over the course of time. But I think it is when you start to talk about what happened after 1978, people then concentrate and say that nothing very good happened prior to 1978 when you look at it. But there was. I think that there was a consolidation of power, which allowed the economy to have some degree of stability, even with the problems in the type of planning we see over the course of time. We see at least some degree of movement away from agriculture towards industrial production and heavy industries, a movement towards light industries as we go further along. So there are some positive pieces to this puzzle.

**Major:** I think that you can point also to what you may call the social economy, including universal healthcare (maybe very basic healthcare, but it was universal nevertheless) and attention to decent housing—again extremely basic, but much better than many people had had before, so there was some kind of attention to the broad base of the economy.

**Kulma:** You are exactly right. And this also ties in to issues of—I don't necessarily want to go down the human rights track here, but when the Chinese focused in on economic and social aspects of human rights, which are the kinds of things that I think fit what you are talking about—being able to put roofs of [people's] heads, being able to provide some degree of education, being able to provide some degree of healthcare, having some kind of system in place to take

care of people after they retire, providing for the basic needs of people. You are exactly right. It is another thing to focus on when thinking about the positive aspects of what happened during that time period.

**Major:** Now, Chairman Mao died in September of 1976. Just eighteen months later, in March of 1978, we had a tremendous shift in policy: the Four Modernizations. I think that for many people--I would like to hear your opinion on this--it seems to mark a real turning point in China's modern economic history.

**Kulma:** Absolutely. There were some things that would have led us to believe that some of these things were going to happen. Things happened in ways that we couldn't have imagined at the time. I am going to go back a little bit--I hope you don't mind: towards the end of the Cultural Revolution, as we move into the early 1970s, [things like] the Nixon visit to China, China's acceptance into the United Nations, the beginning of normalization of relations with certain countries in the region, and as we look [at events happening in the rest of] the world, the eventual normalization with—and this is a little bit after the time period that you are talking about, but in 1979—with the United States. There were [also developments] in the world [outside of China] that were [favorable to] China's opening up to the outside world. Of course, without the internal [factors], none of this would have really happened. Slightly before 1978, if we look at 1975 and the ascendance of Deng Xiaoping, in 1978 Deng Xiaoping moved into a position where he was number three in line, underneath Mao and Zhou Enlai. Now, before 1978, or in the time period from 1975 to 1978, Deng Xiaoping had had some [political] problems, and so he lost [power] to a degree [during those events]. But in my understanding, he put some of the pieces in place [even in the earlier period] that I think were then going to be critical in 1978. In 1976, both Mao Zedong and Zhou Enlai died, so these two “patriarchs” of the revolution and the Communist Party [are out of the way]. There were problems with the Gang of Four<sup>1</sup> which are eventually [solved—by their arrest and removal from power]. And, as you suggested, in 1978, Deng Xiaoping then ascends to power. And then he moves [China] towards modernization. There are definite things that are going on within the [Chinese Communist] Party in order to make these kinds of things happen, but in 1978 they decide to move in the direction of modernizing the agriculture and industry and various other aspects of both the Party [ie, the political system] and the economy.

**Major:** Now, that was around the time that Deng Xiaoping was famously quoted as saying that, “It doesn't matter if a cat was black or white as long as it can catch mice.” So it seems like a program of pure pragmatism. And then not long after that comes the slogan, “To get rich is glorious.” Where is communism in all of this?

**Kulma:** Well, communism is slowly being left by the wayside, and we can talk more about that as we move towards the present, even twenty years later [after those events], it's [still] there as the unifying force of the ideology of the people. It's there as a way to continue to control or have a one-party state in some ways. This is a slow process and we are still not completely out of that process. China is not what we would call a completely capitalist market economy. It began in the countryside with the “household responsibility system,” new policies that were put into place so that people could own their land. They were required to give a certain amount to the government, but anything that they raised and or grew, whether it was crops or livestock, whatever they did beyond that, they could do for themselves. This led to huge increases in production on the agricultural side of the equation. As I [said earlier], there was still growth even during the Cultural Revolution; the numbers that we see after this institution [was implemented], the household responsibility system, become much [larger]. After the Chinese government saw the level of increases—the success of what was going on in the agricultural side—, the Chinese [leaders] decide they would move to try and put some of these new policies in place in the cities. This was mainly happening along the coastal areas of China [in the beginning of the reforms]. They created a number of Special Economic Zones, beginning in 1980 with a very few places, expanding that to another 14 or 15 areas—[including] Qingdao, Shanghai, Shenzhen—that stand out as some of the center-pieces

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<sup>1</sup> e, four powerful figures, including Mao's wife, Jiang Qing, who were behind the Cultural Revolution

now [of economic reform and growth]. [These are] places where we began to see some of the market principals come into play: in the beginning, of course, at a very rudimentary level, [from people] on the street corners selling goods and services, to the weekend markets. But it is all a process that began in the agricultural sector and then moved into the more industrial and urban settings in China.

**Major:** Looking back on that, it seems that there was a tremendous amount of pent-up economic energy. People almost seemed to have been waiting a long time for those private agricultural plots or for those entry-level industrial jobs in the Special Economic Zones. Once it happened, it seemed almost to explode.

**Kulma:** Exactly. People make any number of different arguments, and I think there are many different ways, to explain this. If you hear people talking about China's economy in 2006, people are saying, Is it a market? How are people doing it? They say Chinese people are just born to be natural business people. I think it is a little bit flippant to say that, but at the same time, if you look further back in history, despite the fact of the disruptions before 1949 when the Communist came to power, you do see at least the roots of this penchant for commerce. At the same time, some people have made the argument that, during the Communist period, let's say from 1949 to 1978, the [official] plan or the system [ie, government policy to socialize the economy] wasn't as strong [in China] as it was in the Soviet Union, so there were some "side alleys"—ways in which there were at least very basic markets in place. Since most of the people [in China] were in the countryside, you could say that most of these things were happening in the countryside [where later economic reforms were begun]. [Thus,] there were some of the pieces of the puzzle in place so that, once the government created policies that were an incentive to capitalize on these market principles, the people were very ready to move forward in those kinds of capacities.

**Major:** What happened to the state sector while that was going on?

**Kulma:** [As for] the state sector in the 1980s, again, it has been a slow evolutionary process (and this is still going on): there is still a state sector in China. It is [constantly] decreasing, but it still is an important part of the economy. I think it began an evolutionary process from something that was largely [focused on] the urban and the industrial sectors, to a situation where you saw more and more of the business turn to private business. This was something [that affected] both private business and communal businesses, both in the rural and urban areas: [it was] a movement toward more market based-principles, even within the state-owned areas of the economies, so that people are less and less beholden to the [official economic] plan and more and more beholden to the principles of a market economy. As we move through the 1980s and more particularly through the 1990s, even the managers of factories had to adhere more and more to the market principles. It wasn't necessarily a matter of "here is what we need to produce: produce it and get back to us"; it was more of "you have to look at the bottom line and you have to produce a business which is not a drag on the state economy." You can see the progression over the course of time. This has been helped by such things as joint venture projects between outside companies and Chinese companies, so that you've seen China go up the learning curve in a tremendous way over the course of time. It is an evolutionary process. And, as I suggested, it is not a situation where state-owned enterprises are completely out of the picture now. There are some serious issues related to state-owned enterprises: [many of the enterprises are] drags on the economy, drags on the banking systems, problems along those lines.

**Major:** We use the phrase "rust belt" to refer to the old, mostly defunct, industrial cities of the American Midwest. But I've heard that applied now also to China, in places like [the cities of] Harbin or Lanzhou, where huge state-owned factories are turning into economic dinosaurs.

**Kulma:** True, and these are serious problems. Some of them I think have had the capacity [to change], and you certainly hear the success stories about some [state-owned, largely heavy industry, enterprises] that have successfully made a transition, either within the sector for which they were originally charged with producing goods [or into another sector]: some [state-owned enterprises] have completely changed what they were scheduled to do or produce under the planned economy and, based on market principles, are now, instead of producing widgets, are producing televisions or cell phones, or things along those lines. But, as you suggest, there is a greater portion of [state-owned] factories which have gone out of business— which of course leads to issues for the Chinese government as far as unemployment and various other [negative impacts on] the economy, and these issues impact the [government's] decisions today.