

THE ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA:

PAST PERFORMANCE AND FUTURE PROSPECTS

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Econometric Research Program
Research Memorandum No. 257

December 1979

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This paper is a brief survey of the economy of the People's Republic of China: its past performance and future prospects. After briefly reviewing the performance of the Chinese economy in terms of three criteria, it points out ten major economic problems facing the current leadership in China. The successful resolution of these problems would probably determine the future development of the Chinese economy. This paper is based on a speech which the author delivered before the Fall Assembly of the Princeton University Alumni Council on November 9, 1979.

1. PAST PERFORMANCE

To get a broad picture of economic development in Mainland China in the past 30 years, let us consider three criteria for the measurement of economic performance. These are the rate of growth of consumption per capita, the rate of growth in real output, and the distribution of income.

a. Per Capita Consumption

According to the Chinese official census, total population in Mainland China increased from 583 million in 1953 to 958 million in 1978.¹ These figures imply an average rate of population growth of 2.0 percent per year. Since the early 1950's, total agricultural output has also grown at about 2 percent per year.² This means that the consumption of food (and other agricultural products) per person has not increased. There is evidence that per capita consumption of housing has probably decreased. People travelling in China can see with their own eyes that there has been little construction

in almost every part of China while old buildings have deteriorated through lack of maintenance. In the meantime population has grown rapidly. Housing consumption per capita had to go down. Food and housing being the main items in consumption, total consumption per capita could have risen only very slowly through a small increase in the consumption of some industrial products.

This conclusion is in agreement with the facts about earnings. It is well known [Cf. New York Times, July 5, 1979] that the average wage of industrial workers has remained at about \$35 per month for over twenty years; in fact the exact figures reported showed a slight decline from 1958 to 1978. Neither has the payment to an average farmer increased by much. Therefore, total consumption per head could not have risen significantly.

b. Real Output

Experts disagree to some extent on the actual rate of growth of real output per person in China. For example, Colin Clark (1976) gave an estimate of 2 percent per year.³ Dwight Perkins (1978) gave an estimate of about 4 percent. As population has grown at the rate of 2 percent, this means that the rate of growth of total output is somewhere around 4 to 6 percent.

Underlying this rate of growth, heavy emphasis has been placed on the industrial sector as compared with the agricultural sector. The rate of growth in industrial output has been estimated to be about 8 percent per year by Clark (1976), and about 13 to 14 percent per year by Perkins (1978). As far as the rate of increase in total output is concerned, the estimate of 4 percent appears more reasonable than 6 percent. If the latter had occurred for 30 years, China would be richer and more industrialized than can be observed today.

c. Distribution

It has been suggested that the mass of people in China have been made better off by a more even distribution of total output. This suggestion is invalid on two counts. First, even if distribution were more even, it would not have helped the great majority of the population very much since there simply were not enough rich people in China on a percentage basis. Second, as a matter of fact, distribution is not very even according to several measures. For example, the disparity between the standard of living of people in the cities and in the rural areas has persisted. While the annual per capita income of industrial workers in 1978 was \$415, the per capita income of China's 800 million peasants last year was only \$48, according to the New York Times (July 5, 1979). Also, differences in living standard among provinces are still very great, much greater than the differences among the different states in this country. Clark (1976) concludes that "inequalities in income distribution in China are not very different from those prevailing in other countries."

How about the very poor who had been on the verge of starvation before 1949? These people, though numerous in absolute numbers, had accounted for only a small fraction of the population and there had been more of them during years of war and famine. The government did succeed in providing for the very, very poor to some extent, but the record has been mixed. As a result of the Great Leap Forward, many people were actually in a condition of starvation in 1960-1961. Economic conditions in China, through its entire history, had never been as bad as they were in 1961. Even today, extreme poverty in parts of the country still persists. The thousands of extremely poor people who were saved from starvation by the government were probably less numerous than those who were executed or forced to commit suicide for

political reasons under the present regime. From the viewpoint of distribution, the main success, if one can call it a success, is that some rich landlords, merchants, and industrialists were eliminated. Their economic power was transferred to the state. This, however, did not really help the poor, but only deprived the country of the talents and energy of certain economically useful members of the upper and upper-middle classes.

d. Summary of Past Performance

In summary, the economic performance in Mainland China in the last thirty years has been poor as judged by the very slow improvement in the average standard of living. There has been some success in industrialization and capital formation. However, one should consider the formation of physical capital in conjunction with the deterioration of human capital which has occurred because of the great disruption of higher education in China from 1966 to 1977. China has more factories, bridges, railroads, and mines today but very few technically trained people.

The modest success in industrialization has accounted for a small growth of real output per capita. There is a remarkable fact about China. The record, according to Clark (1976, Table 13, p. 257), shows that the economy has continued to grow since the 1930's in spite of the War with Japan in the 30's and the early 40's, the civil war in the late 40's, the Great Leap Forward of the 50's, the Cultural Revolution of the 60's, the recognized misconduct of the Gang of Four in the 70's, and the many other abuses to which the Chinese people have been subjected. Some have asked whether China could have done better economically in the last 30 years. The real question is, how could it have done worse?

2. FUTURE PROSPECTS

The current leadership, recognizing some of the mistakes made in the past, has decided to change. The educational system has been allowed to function better, with colleges reopened and students accepted on the basis of merit rather than politics. Some students and scholars have been sent to study abroad. Foreign investments have been sought. Wage increases have been used to provide some incentives. Farmers are allowed some private plots to produce for profit. These are all encouraging signs. There is no question that economic conditions in China will improve if one can safely rule out great political instability and the kind of abuses which occurred during the Great Leap Forward and the Cultural Revolution. How much improvement will depend on whether the following important problems can be successfully resolved.

First, the educational system has to recover and expand rapidly to supply the technically trained people needed for the industrialization process. Second, population growth has to be drastically slowed down and prevented from draining the nation's economic resources. Third, exports have to be increased sufficiently to pay for the necessary imports of foreign capital goods and technology. Fourth, foreign investments and technology transfers have to be encouraged, promoted and integrated into the Chinese economic system. Such undertaking, however, raises numerous legal, ideological, and economic problems as it requires fitting essentially capitalistic enterprises into a socialist system. It may be considered as a sign of discrimination against the Chinese themselves who are not allowed to establish similar enterprises.

Fifth, major decisions have to be made and plans have to be devised concerning the efficient allocation of human and physical resources among

agriculture and industry and among different industries. Sixth, a balanced development of an economic infrastructure of transportation, public utilities, ports, etc., has to be provided in order to foster and support economic growth. Seventh, special vocational training for the farmers and workers is required to improve their productivity, and special training for the managers is equally urgent. Eighth, incentives have to be provided to workers and farmers. Residents of and perceptive travellers to China all recognize that low morale of the workers and farmers is a most serious problem facing the Chinese economy today. Years of political and ideological turmoil and the lack of economic incentives have combined to create a group of workers most of whom do not care about their work. If material incentives are provided for the farmers and the workers, there is the problem of channelling a sufficient fraction of output to saving and capital formation when the people's economic aspirations are raised. Ninth, the role of the market and the price mechanism has to be clearly identified and made effective to assist the functioning of the economy. Tenth, a qualified staff to direct economic planning is especially needed in a socialist economy like China, but it is practically nonexistent because of the Cultural Revolution and of the lack of well-trained economists to begin with.

To emphasize, the most important economic problem is to provide a set of economic institutions in which the ingenuity and the talents of the Chinese people can perform their best in the development of the Chinese economy. This involves the problem of incentives. Will the workers, managers, merchants, and engineers strive in Mainland China in the way that they are striving in Hong Kong, South East Asia, Taiwan, the United States, and the rest of the world? Will the Government be intelligent enough to permit them to function effectively in China itself? This is the key question.

All the problems mentioned above are serious problems and we cannot expect easy solutions. Yet, overall, the country will do better economically because the present leadership is an improvement over the past.

Concerning U.S.-China economic relations in the 1980's, trade and other economic exchanges will no doubt expand. There will be opportunities for many Americans in these exchanges. China can use help in solving all the problems I have mentioned, in education, in the control of population growth, in export promotion, in technology transfer, in the development of heavy industry, and in economic planning. I am sure that many Americans are willing to help. The question is how much the Chinese leadership is willing to seek help from the U.S. in the area of economic planning and especially in the most important area of designing a set of economic institutions to harness the energy from and provide incentives to the Chinese people. It is in this last area that there may be a basic conflict between the power and ideology of Chinese Communism and economic progress.

FOOTNOTES

¹ See Footnote 3 below.

² See Perkins (1978).

³ Readers of Clark (1976) will discover that his estimate of the rate of population growth is too low, as compared with the official estimates of 583 million in 1953 and 958 million in 1978. The first figure can be found in Aird (1968) among numerous references. The second one can be found in "Official PRC Statistics, 1977-1978," The China Business Review (July-August, 1979), p. 42. If population in China has grown more rapidly than stated in Clark (1976), his estimate of the rate of growth of output per person will have to be revised downward.

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