

change in the late 1940s and '50s. By 1990 the gap had basically vanished.

As in Botswana, the key in the U.S. South was the development of inclusive political and economic institutions. This came at the juxtaposition of the increasing discontent among blacks suffering under southern extractive institutions and the crumbling of the one-party rule of the Democratic Party in the South. Once again, existing institutions shaped the path of change. In this case, it was pivotal that southern institutions were situated within the inclusive federal institutions of the United States, and this allowed southern blacks finally to mobilize the federal government and institutions for their cause. The whole process was also facilitated by the fact that, with the massive outmigration of blacks from the South and the mechanization of cotton production, economic conditions had changed so that southern elites were less willing to put up more of a fight.

### REBIRTH IN CHINA

The Communist Party under the leadership of Mao Zedong finally overthrew the Nationalists, led by Chiang Kai-shek, in 1949. The People's Republic of China was proclaimed on October 1. The political and economic institutions created after 1949 were highly extractive. Politically, they featured the dictatorship of the Chinese Communist Party. No other political organization has been allowed in China since then. Until his death in 1976, Mao entirely dominated the Communist Party and the government. Accompanying these authoritarian, extractive political institutions were highly extractive economic institutions. Mao immediately nationalized land and abolished all kinds of property rights in one fell swoop. He had landlords, as well as other segments he deemed to be against the regime, executed. The market economy was essentially abolished. People in rural areas were gradually organized onto communal farms. Money and wages were replaced by "work points," which could be traded for goods. Internal passports were

introduced in 1956 forbidding travel without appropriate authorization, in order to increase political and economic control. All industry was similarly nationalized, and Mao launched an ambitious attempt to promote the rapid development of industry through the use of “five-year plans,” modeled on those in the Soviet Union.

As with all extractive institutions, Mao’s regime was attempting to extract resources from the vast country he was now controlling. As in the case of the government of Sierra Leone with its marketing board, the Chinese Communist Party had a monopoly over the sale of produce, such as rice and grain, which was used to heavily tax farmers. The attempts at industrialization turned into the infamous Great Leap Forward after 1958 with the roll-out of the second five-year plan. Mao announced that steel output would double in a year based on small-scale “backyard” blast furnaces. He claimed that in fifteen years, China would catch up with British steel production. The only problem was that there was no feasible way of meeting these targets. To meet the plan’s goals, scrap metal had to be found, and people would have to melt down their pots and pans and even their agricultural implements such as hoes and plows. Workers who ought to have been tending the fields were making steel by destroying their plows, and thus their future ability to feed themselves and the country. The result was a calamitous famine in the Chinese countryside. Though scholars debate the role of Mao’s policy compared with the impact of droughts at the same time, nobody doubts the central role of the Great Leap Forward in contributing to the death of between twenty and forty million people. We don’t know precisely how many, because China under Mao did not collect the numbers that would have documented the atrocities. Per capita income fell by around one-quarter.

One consequence of the Great Leap Forward was that a senior member of the Communist Party, Deng Xiaoping, a very successful general during the revolution, who led an “anti-rightist” campaign resulting in the execution of many “enemies of the revolution,” had a change of heart. At a conference in Guangzhou in the south of China in 1961, Deng argued, “No matter whether the cat is black or

white, if it catches mice, it's a good cat." It did not matter whether policies appeared communist or not; China needed policies that would encourage production so that it could feed its people.

Yet Deng was soon to suffer for his newfound practicality. On May 16, 1966, Mao announced that the revolution was under threat from "bourgeois" interests that were undermining China's communist society and wishing to re-create capitalism. In response, he announced the Great Proletarian Cultural Revolution, usually referred to as the Cultural Revolution. The Cultural Revolution was based on sixteen points. The first started:

Although the bourgeoisie has been overthrown, it is still trying to use the old ideas, culture, and customs, and habits of the exploiting classes to corrupt the masses, capture their minds, and endeavor to stage a comeback. The proletariat must do just the opposite: it must meet head-on every challenge of the bourgeoisie in the ideological field and use the new ideas, culture, customs, and habits of the proletariat to change the mental outlook of the whole of society. At present our objective is to struggle against and crush those persons in authority who are taking the capitalist road, to criticize and repudiate the reactionary bourgeois academic authorities and the ideology of the bourgeoisie and all other exploiting classes and transform education, literature, and art and all other parts of the superstructure that do not correspond to the socialist economic base, so as to facilitate the consolidation and development of the socialist system.

Soon the Cultural Revolution, just like the Great Leap Forward, would start wrecking both the economy and many human lives. Units of Red Guards were formed across the country: young, enthusiastic members of the Communist Party who were used to purge opponents of the regime. Many people were killed, arrested, or sent into internal exile. Mao himself retorted to concerns about

the extent of the violence, stating, “This man Hitler was even more ferocious. The more ferocious, the better, don’t you think? The more people you kill, the more revolutionary you are.”

Deng found himself labeled number-two capitalist roader, was jailed in 1967, and then was exiled to Jiangxi province in 1969, to work in a rural tractor factory. He was rehabilitated in 1974, and Mao was persuaded by Premier Zhou Enlai to make Deng first vice-premier. Already in 1975, Deng supervised the composition of three party documents that would have charted a new direction had they been adopted. They called for a revitalization of higher education, a return to material incentives in industry and agriculture, and the removal of “leftists” from the party. At the time, Mao’s health was deteriorating and power was increasingly concentrated in the hands of the very leftists whom Deng Xiaoping wanted to remove from power. Mao’s wife, Jiang Qing, and three of her close associates, collectively known as the Gang of Four, had been great supporters of the Cultural Revolution and the resulting repression. They intended to continue using this blueprint to run the country under the dictatorship of the Communist Party. On April 5, a spontaneous celebration of the life of Zhou Enlai in Tiananmen Square turned into a protest against the government. The Gang of Four blamed Deng for the demonstrations, and he was once more stripped of all his positions and dismissed. Instead of achieving the removal of the leftists, Deng found that the leftists had removed him. After the death of Zhou Enlai, Mao had appointed Hua Guofeng as the acting premier instead of Deng. In the relative power vacuum of 1976, Hua was able to accumulate a great deal of personal power.

In September there was a critical juncture: Mao died. The Chinese Communist Party had been under Mao’s domination, and the Great Leap Forward and the Cultural Revolution had been largely his initiatives. With Mao gone, there was a true power vacuum, which resulted in a struggle between those with different visions and different beliefs about the consequences of change. The Gang of Four intended to continue with the policies of the Cultural Revolution as the only way of consolidating theirs and the Communist Party’s power. Hua Guofeng wanted to abandon the

Cultural Revolution, but he could not distance himself too much from it, because he owed his own rise in the party to its effects. Instead, he advocated a return to a more balanced version of Mao's vision, which he encapsulated in the "Two Whatevers," as the *People's Daily*, the newspaper of the Chinese Communist Party, put it in 1977. Hua argued, "We will resolutely uphold whatever policy decisions Chairman Mao made, and unswervingly follow whatever instructions Chairman Mao gave."

Deng Xiaoping did not wish to abolish the communist regime and replace it with inclusive markets any more than Hua did. He, too, was part of the same group of people brought to power by the communist revolution. But he and his supporters thought that significant economic growth could be achieved without endangering their political control: they had a model of growth under extractive political institutions that would not threaten their power, because the Chinese people were in dire need of improved living standards and because all meaningful opposition to the Communist Party had been obliterated during Mao's reign and the Cultural Revolution. To achieve this, they wished to repudiate not just the Cultural Revolution but also much of the Maoist institutional legacy. They realized that economic growth would be possible only with significant moves toward inclusive economic institutions. They thus wished to reform the economy and bolster the role of market forces and incentives. They also wanted to expand the scope for private ownership and reduce the role of the Communist Party in society and the administration, getting rid of such concepts as class struggle. Deng's group was also open to foreign investment and international trade, and wished to pursue a much more aggressive policy of integrating with the international economy. Still, there were limits, and building truly inclusive economic institutions and significantly lessening the grip the Communist Party had on the economy weren't even options.

The turning point for China was Hua Guofeng's power and his willingness to use it against the Gang of Four. Within a month of Mao's death, Hua mounted a coup against the Gang of Four, having them all arrested. He then reinstated Deng in March 1977. There

was nothing inevitable either about this course of events or about the next significant steps, which resulted from Hua himself being politically outmaneuvered by Deng Xiaoping. Deng encouraged public criticism of the Cultural Revolution and began to fill key positions in the Communist Party at all levels with people who, like him, had suffered during this period. Hua could not repudiate the Cultural Revolution, and this weakened him. He was also a comparative newcomer to the centers of power, and he lacked the web of connections and informal relations that Deng had built up over many years. In a series of speeches, Deng began to criticize Hua's policies. In September 1978, he explicitly attacked the Two Whatevers, noting that rather than let whatever Mao had said determine policy, the correct approach was to "seek truth from facts."

Deng also brilliantly began to bring public pressure to bear on Hua, which was reflected most powerfully in the Democracy Wall movement in 1978, in which people posted complaints about the country on a wall in Beijing. In July of 1978, one of Deng's supporters, Hu Qiaomu, presented some basic principles of economic reform. These included the notions that firms should be given greater initiative and authority to make their own production decisions. Prices should be allowed to bring supply and demand together, rather than just being set by the government, and the state regulation of the economy more generally ought to be reduced. These were radical suggestions, but Deng was gaining influence. In November and December 1978, the Third Plenum of the Eleventh Central Party Committee produced a breakthrough. Over Hua's objections, it was decided that, from then on, the focus of the party would be not class struggle but economic modernization. The plenum announced some tentative experiments with a "household responsibility system" in some provinces, which was an attempt to roll back collective agriculture and introduce economic incentives into farming. By the next year, the Central Committee was acknowledging the centrality of the notion of "truth from facts" and declaring the Cultural Revolution to have been a great calamity for the Chinese people. Throughout this period, Deng was securing the

appointment of his own supporters to important positions in the party, army, and government. Though he had to move slowly against Hua's supporters in the Central Committee, he created parallel bases of power. By 1980 Hua was forced to step down from the premiership, to be replaced by Zhao Ziyang. By 1982 Hua had been removed from the Central Committee. But Deng did not stop there. At the Twelfth Party Congress in 1982, and then in the National Party Conference in September 1985, he achieved an almost complete reshuffling of the party leadership and senior cadres. In came much younger, reform-minded people. If one compares 1980 to 1985, then by the latter date, twenty-one of the twenty-six members of the Politburo, eight of the eleven members of the Communist Party secretariat, and ten of the eighteen vice-premiers had been changed.

Now that Deng and the reformers had consummated their political revolution and were in control of the state, they launched a series of further changes in economic institutions. They began in agriculture: By 1983, following the ideas of Hu Qiaomu, the household responsibility system, which would provide economic incentives to farmers, was universally adopted. In 1985 the mandatory state purchasing of grain was abandoned and replaced by a system of more voluntary contracts. Administrative control of agricultural prices was greatly relaxed in 1985. In the urban economy, state enterprises were given more autonomy, and fourteen "open cities" were identified and given the ability to attract foreign investment.

It was the rural economy that took off first. The introduction of incentives led to a dramatic increase in agricultural productivity. By 1984 grain output was one-third higher than in 1978, though fewer people were involved in agriculture. Many had moved into employment in new rural industries, the so-called Township Village Enterprises. These had been allowed to grow outside the system of state industrial planning after 1979, when it was accepted that new firms could enter and compete with state-owned firms. Gradually economic incentives were also introduced into the industrial sector, in particular into the operation of state-run enterprises, though at

this stage there was no hint at privatization, which had to wait until the mid-1990s.

The rebirth of China came with a significant move away from one of the most extractive set of economic institutions and toward more inclusive ones. Market incentives in agriculture and industry, then followed by foreign investment and technology, would set China on a path to rapid economic growth. As we will discuss further in the next chapter, this was growth under extractive political institutions, even if they were not as repressive as they had been under the Cultural Revolution and even if economic institutions were becoming partially inclusive. All of this should not understate the degree to which the changes in economic institutions in China were radical. China broke the mold, even if it did not transform its political institutions. As in Botswana and the U.S. South, the crucial changes came during a critical juncture—in the case of China, following Mao's death. They were also contingent, in fact highly contingent, as there was nothing inevitable about the Gang of Four losing the power struggle; and if they had not, China would not have experienced the sustained economic growth it has seen in the last thirty years. But the devastation and human suffering that the Great Leap Forward and the Cultural Revolution caused generated sufficient demand for change that Deng Xiaoping and his allies were able to win the political fight.

BOTSWANA, CHINA, and the U.S. South, just like the Glorious Revolution in England, the French Revolution, and the Meiji Restoration in Japan, are vivid illustrations that history is not destiny. Despite the vicious circle, extractive institutions can be replaced by inclusive ones. But it is neither automatic nor easy. A confluence of factors, in particular a critical juncture coupled with a broad coalition of those pushing for reform or other propitious existing institutions, is often necessary for a nation to make strides toward more inclusive institutions. In addition some luck is key, because history always unfolds in a contingent way.