

Teaching with China's Great Migration

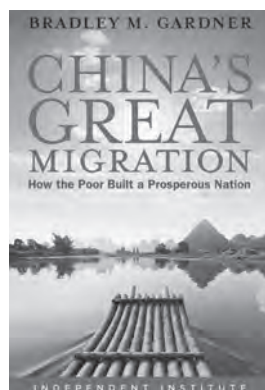
How the Poor Built a Prosperous Nation

BY BRADLEY M. GARDNER

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By Ken Schoolland, Li Zhao Schoolland, and Kenli Schoolland



Syrrian refugees on rafts in the Mediterranean Sea, Rohingya fleeing ethnic cleansing in Burma, Somalians and Sudanese fleeing military conflict and famine on the rim of Ethiopia—migration is perpetual headline news. In the US, the story is of stemming the tide of migrants from Mexico and the Caribbean. In all cases, migration is viewed as a problem to be controlled or stopped.

While news reports focus on migration across national borders, the benefits of migration are best illustrated within China in recent decades. With 18 percent of the world's

population, every province of China has a population greater than most countries of the world, with massive internal migration that would have been prohibited across international borders.

In *China's Great Migration: How the Poor Built a Prosperous Nation*, Bradley M. Gardner shows that migration may be the greatest development story in history. Never before have so many people been lifted out of poverty. "From 1981 to 2011," says Gardner, "the size of the Chinese population living in absolute poverty declined by 753 million people—a number roughly twice the population of the United States. The Chinese economic miracle accounted for 50 percent of the total decline in poverty levels globally . . ." ¹

Many factors accounted for such astounding economic growth, but all depended on the mobility of labor. The magnitude of this mass migration of 260 million workers within China between 1978 and 2012 is greater than the world's total cross-border migration of 232 million. This internal Chinese migration is twenty times the number of workers who migrated within the European Union. This is also six times the number of people who moved to the United States from abroad, 18 percent of the world's total number of migrants. ²

For Gardner, mass migrations aren't unique to the history of China. The US experienced similar episodes during the Irish Potato Famine, the Gold Rush, Chinese and European migrations in the nineteenth century, the Dust Bowl, and the postwar Vietnamese. Once in America, people could move freely to any state that offered the greatest opportunity for their talents. Indeed, one important strength of the US economy has been the extraordinary fluidity of the domestic labor market.

Whether fleeing threats or seeking rewards, migration creates value. People go where the opportunities are ripe for the development and utilization of skills. In the process, they build more, consume more, and innovate more. Says Adrian Furnham, Professor of Psychology at University College London, "What I've found is that immigrants not only have the qualities that help *any* entrepreneurs succeed . . . but they get a big boost because many of the skills they picked up coping with a new world are transferable to the entrepreneurial world." ³

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Gardner's account of China's Great Migration begins with an explanation of the transition from a centrally planned economy under Mao Zedong following the Communist Chinese Revolution in 1949 to the market reforms that began under Deng Xiaoping in 1978. Students new to economics will find an excellent description of life and practices in the centrally planned economy that ultimately led to the death of millions during the era of the Great Leap Forward and the Cultural Revolution. "Both reforms," says Gardner, "rank among the worst human tragedies of the twentieth century." ⁴

Prior to the revolution, landlords owned the land, collected rents, and paid taxes, while tenants had rights to use and develop the land. The first stage of economic reform after the revolution took ownership from landlords and gave land directly to the tenants, usually by persecution and murder, thus removing landlords as tax-collecting middlemen between the government and tenants. "Besides the millions killed, millions more dispossessed moved to the cities as refugees," observes Gardner. America instituted similar land reforms in postwar Japan, South Korea, and Taiwan without the violence.

Gardner asserts that this didn't bring about significant redistribution of the land since the major tenants still controlled the land they had previously tilled. But the second stage changed everything by removing all private ownership and establishing collective farms where all the land was owned and managed in common. Ultimately, decisions about farm productivity were removed from individual tenants and administered by the Communist Party elite. The irony is that the party gained power by promising land to the peasants and later by taking it from them.

This reflects the life experienced by my wife when her family was exiled to Da Bang Village in the southern province of Guang Xi, where the land was good for cash crops, such as tobacco and peanuts, but to meet Mao's production quotas, only rice was allowed to be grown. Farmers were required to cut terraces into rocky landscapes and carry soil and water from miles away.

"The terraces could not accommodate machinery and the ground was so hard that the villagers were made to stand in rows and step in place for hours to soften the ground for planting," recounts my wife. "Even then, rice would barely grow. Sometimes, it was so bad that the amount harvested was less than the amount planted as seed. Pervasive inefficiency meant that quotas were never filled and people starved. Even after an entire year of hard labor spent growing rice, farmers had to borrow some back from the government just to have a bowl of solid rice for New Year rather than their usual rice soup, which was so watery you could count the number of grains in your bowl at a glance." ⁵

My wife recalled another instance of central planning when it was decided that a winding river used too much land that could otherwise be planted for rice. So Communist Party officials ordered all the villagers in the region to join in diverting the river. For months, they dug a straight channel for the water across the valley and prepared to celebrate when they finally broke the dam to watch the water rush along the new path. Their hearts sank when they saw the whole river disappear completely into the sandy soil. It was a disaster.

TEACHING RESOURCES ESSAY

So inefficient was central planning that even with 80 percent of the population working the land, the nation was not able to feed itself. In *Mao: The Unknown Story*, June Chung alleges that the average daily calorie consumption (1,200) of the Chinese in 1960 was less than that of slave laborers (1,300 to 1,700) in Auschwitz during World War II.⁶ Gardner asserts that even by 1978 the average person ate only 66 percent of the calorie intake of a typical developed country.

Economics classes would do well to examine the importance of private, individual decision-making versus collective decision-making. The former provides incentives that are absent in the latter. When one personally gains by the rewards of production, there is strong motivation for saving and investment, close attention to innovative farming techniques, and hard work. On the other hand, incentives are greatly diminished when one's reward comes as an equal share from the group as a whole, regardless of performance. The productivity of all suffers.

Rewards on a collective farm are similar to what would be expected of an economics class that awarded exactly the same grade to all students regardless of individual performance, knowledge, or effort. Top-performing students would receive no better grade than students who didn't even take the exam. In such a system, the incentive for doing well is reduced for all. On the other hand, when students are rewarded with a grade to match their own individual performances, talents, and hard work, the incentive for everyone in the class improves.

Out of desperation in 1976, two production teams in one village were finally allowed to deviate from official grain production plans in order to produce on private plots. They tripled output, and the rest of the village followed suit. Two years later, reports Gardner, eighteen peasants signed a secret agreement to try private farming. "These villages were deeply impoverished, and many had to beg for food from surrounding villages in order to survive. There was little to lose, even if they were arrested."⁷ The experiments were so successful that the idea spread to neighboring villages.

The Chinese government broadly authorized a household responsibility system of production that permitted farmers to have three years of assured tenure on individual allocations of land, but the government still determined what would be planted and the price for crops. Farmers were later given thirty years of tenancy and were allowed to plant whatever they wanted and to set their own prices.

The economics student could reflect on the importance of prices to the decisions of farmers. Without prices, farmers have no clue what changes are taking place in the costs for suppliers or the demands of consumers.

A tremendous spurt in wealth followed as a whole range of private decisions on seeds, fertilizers, equipment, irrigation, and roads encouraged investments that were now secure from expropriation. Farms became so productive that fewer people were needed on the land, an example of the law of diminishing returns. The subsequent excess of people on the land sought paid employment year-round in urban areas.

This abundance of rural labor seeking jobs coincided with the return of millions of the "sent-down youth," youths who were forcibly removed from cities to work in the countryside during the Cultural Revolution. This also included disgraced intellectuals with professional skills that contributed to productivity. My wife's family was among these. Her father, a surgeon, and her mother, a university professor, were allowed to return to Tianjin after ten years of exile.

State factories that based workers' pay on egalitarian distribution, regardless of individual performance, were also as inefficient as the collective farms. These factories were not able to hire the massive influx of labor, so the head of state in Wenzhou, Zhejiang Province, Ye Jianying, ended the government monopoly on labor and legalized self-employment, which

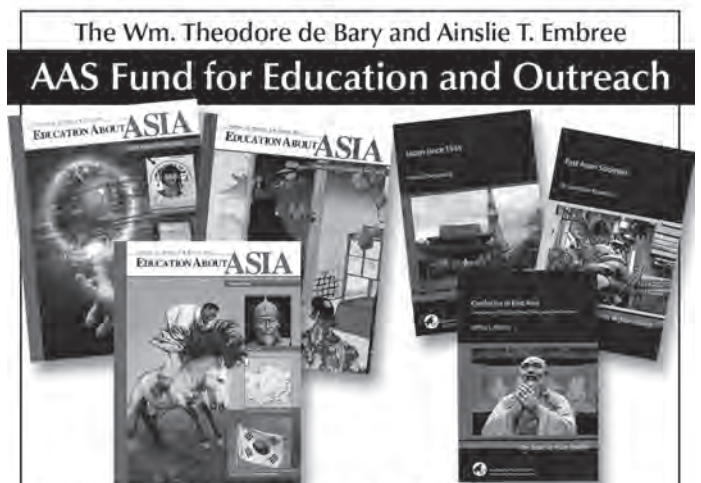
led to great improvements in productivity. This 1979 policy directive was formalized into law in 1981. Between 1993 and 1998, private employment rose by 41 percent per year.

Town and village enterprises were managed by private individuals and subject to market forces, meaning that prices were the signals of what to produce, how to produce, and what customers to target, instead of government directives. Such was the growth of the private sector from 1978 to 1995 that government revenue as a share of gross domestic product (GDP) dropped from 47 percent to 10.7 percent.

Microeconomics students could compare the importance of pricing in market economies versus five-year plans in command economies. And macroeconomics students might find it interesting to compare GDP growth rates in China and in Western economies relative to the share of government revenue to GDP.

In an effort to imitate the success of Hong Kong, the Chinese government set up numerous free economic zones along the east coast. These became the engines of economic growth by attracting tremendous foreign investment. What made these zones possible, however, was the great quantity of labor that migrated from the countryside.

The main obstacle to the movement of labor to the eastern cities was the *hukou* system of residential identification. Originating in 1951, the *hukou* was a registration system to identify each person by status (rural or urban) and location. To move required official authorization. Without authorization to move, one could face enormous fines. While all employment, housing, education, health care, transportation, and pensions were government monopolies, it was virtually impossible to ignore.



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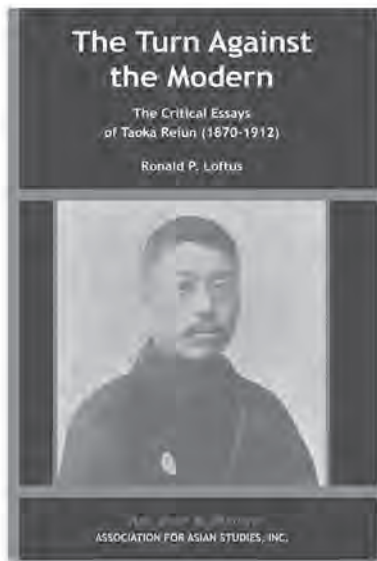
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When private enterprises were allowed to hire in increasing numbers and wages were so much greater in cities, people could become rich by defying the hukou restrictions. Realizing the importance of migration to burgeoning urban centers, the hukou controls were gradually relaxed and employers were able to allocate labor resources more efficiently.

Studies show that 20 to 33 percent of the growth in GDP are directly attributable to the movement of labor from rural agriculture to urban industry, reports Gardner.⁸ Not only did workers improve their productivity in industry, as demonstrated by the tripling of wages, but the productivity of labor remaining behind on the farms improved as well. For workers, the continually higher wages in cities reflected higher productivity gains from work experience, business knowledge, and domestic and global networking.

Gardner gives excellent and clear analysis of the development of China's economy since the 1949 revolution. He jumps back and forth in time, which can be a little confusing but is unavoidable in his effort to track developments in different arenas of public policy.

Most welcome is his summary of visions for reform in any nation that would attempt to match the spectacular gains from migration that were experienced by China. In addition to the lifting of direct barriers, other reforms could greatly help facilitate migration: (1) strengthening property rights to allow migrant access to capital; (2) easing restrictions on hiring so that new labor can be quickly utilized; (3) loosening restrictions on infrastructure such as housing; and (4) improving basic social services so that migrants can benefit through education, health care, and pensions.

Gardner contrasts this openness of migration within China to the restrictions against immigration to the US, beginning with the Chinese Exclusion Act of 1882. This leaves the reader wondering how much greater American economic development might have been without such barriers to productive labor. ■

NOTES

1. Bradley Gardner, *China's Great Migration: How the Poor Built a Prosperous Nation* (Oakland: Independent Institute, 2017), 2.
2. *Ibid.*, 3.
3. Adrian Furnham, "Why Immigrants Make Great Entrepreneurs," *The Wall Street Journal*, Nov. 26, 2017, <https://tinyurl.com/y8kz6lrv>.
4. Gardner, 15.
5. Kenli Schoolland, "The China Model: Is It a Golden Formula?" *Economic Affairs*, June 2012.
6. June Chung and John Halliday, *Mao: The Unknown Story* (New York: Anchor Books, 2005).
7. Gardner, 22.
8. Gardner, 70–71.

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