

# ECONOMIC AND BUSINESS HISTORY 22/23

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LECTURE 18: AFTER THE GREAT  
MODERATION (JUST PART 1)



Lisbon School  
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# PLAN



1. Meanwhile, in  
the East...



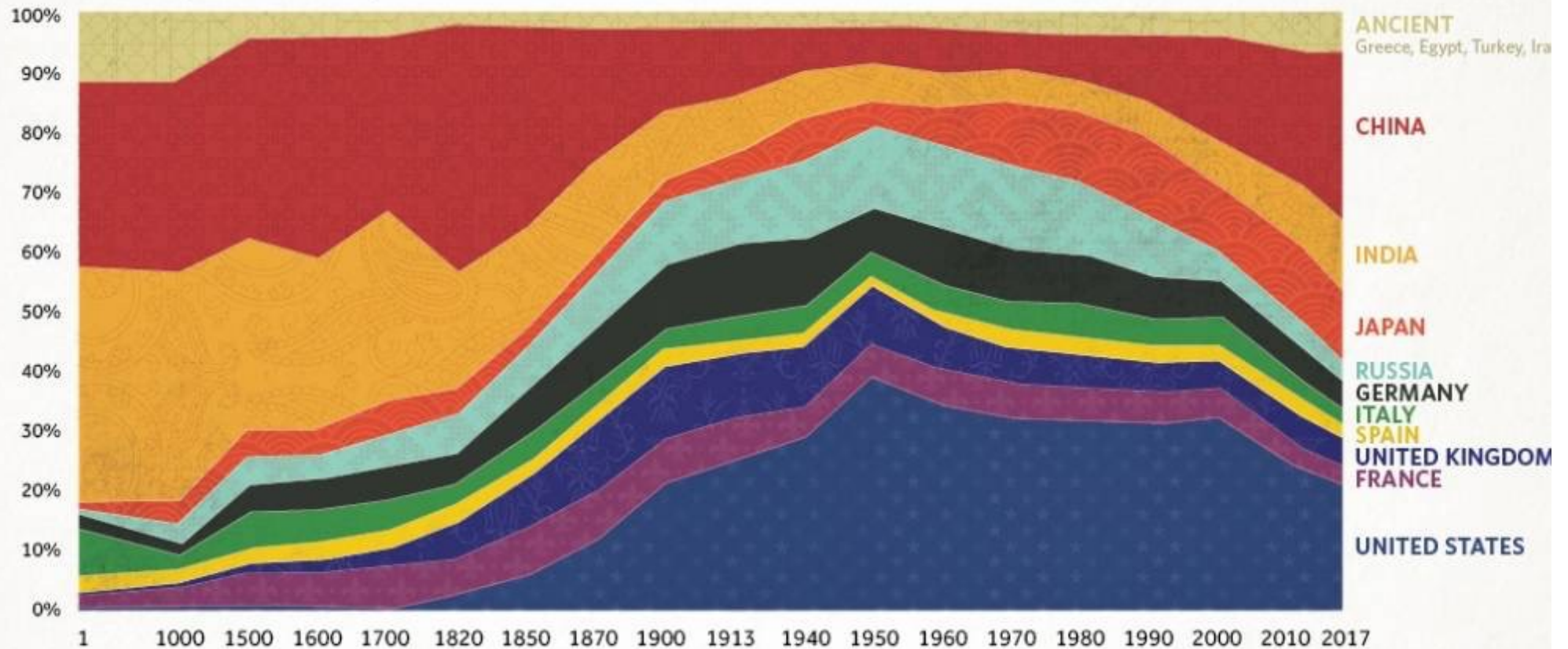
# 1. Meanwhile, in the East...

# “Great Moderation”, just in the West

## 2,000 YEARS OF ECONOMIC HISTORY IN ONE CHART

All major powers compared by GDP from the year 1 AD

SHARE OF GDP (WORLD POWERS)

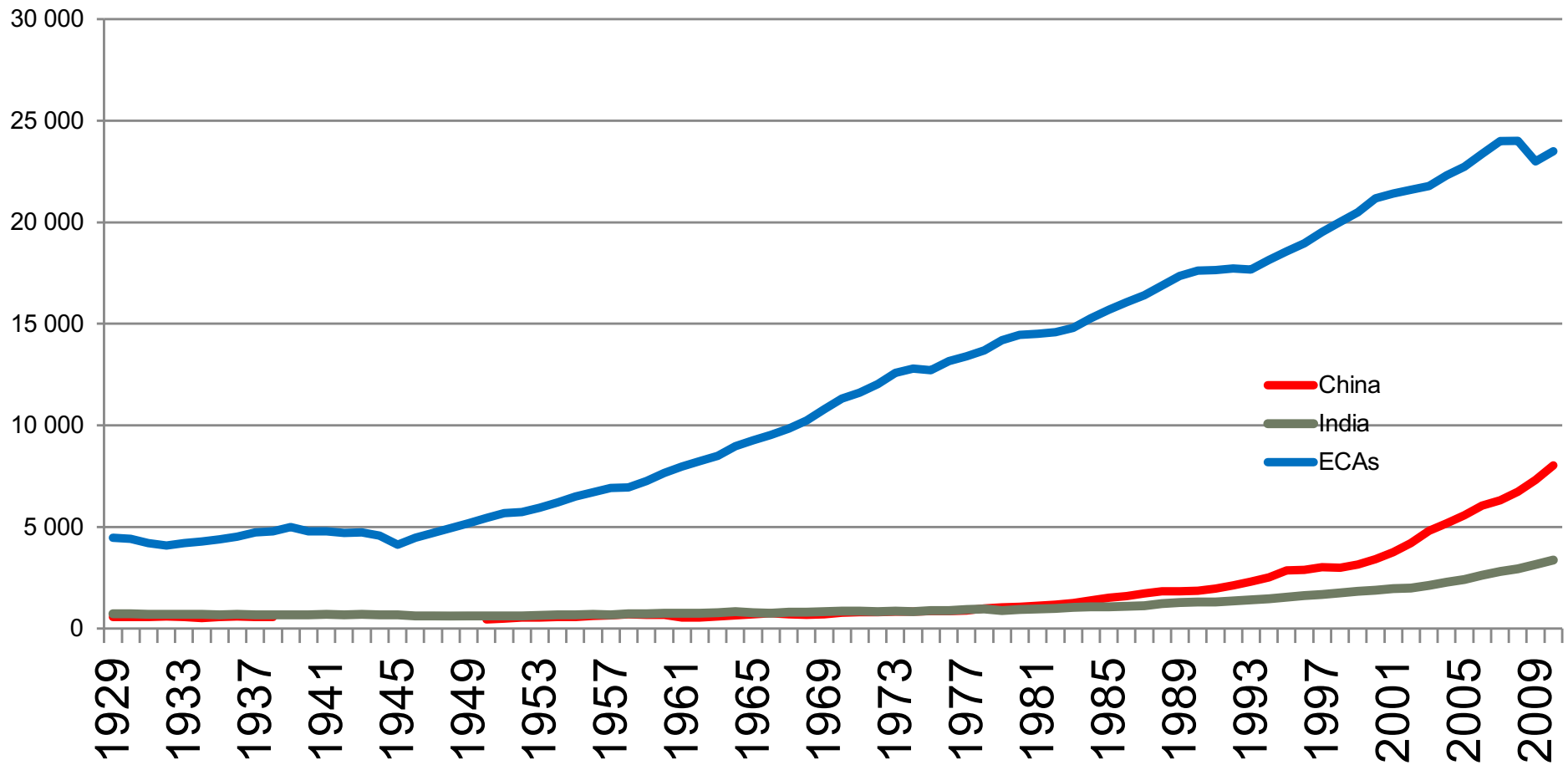


# West /Rest (GDPpc; 1990 US\$)

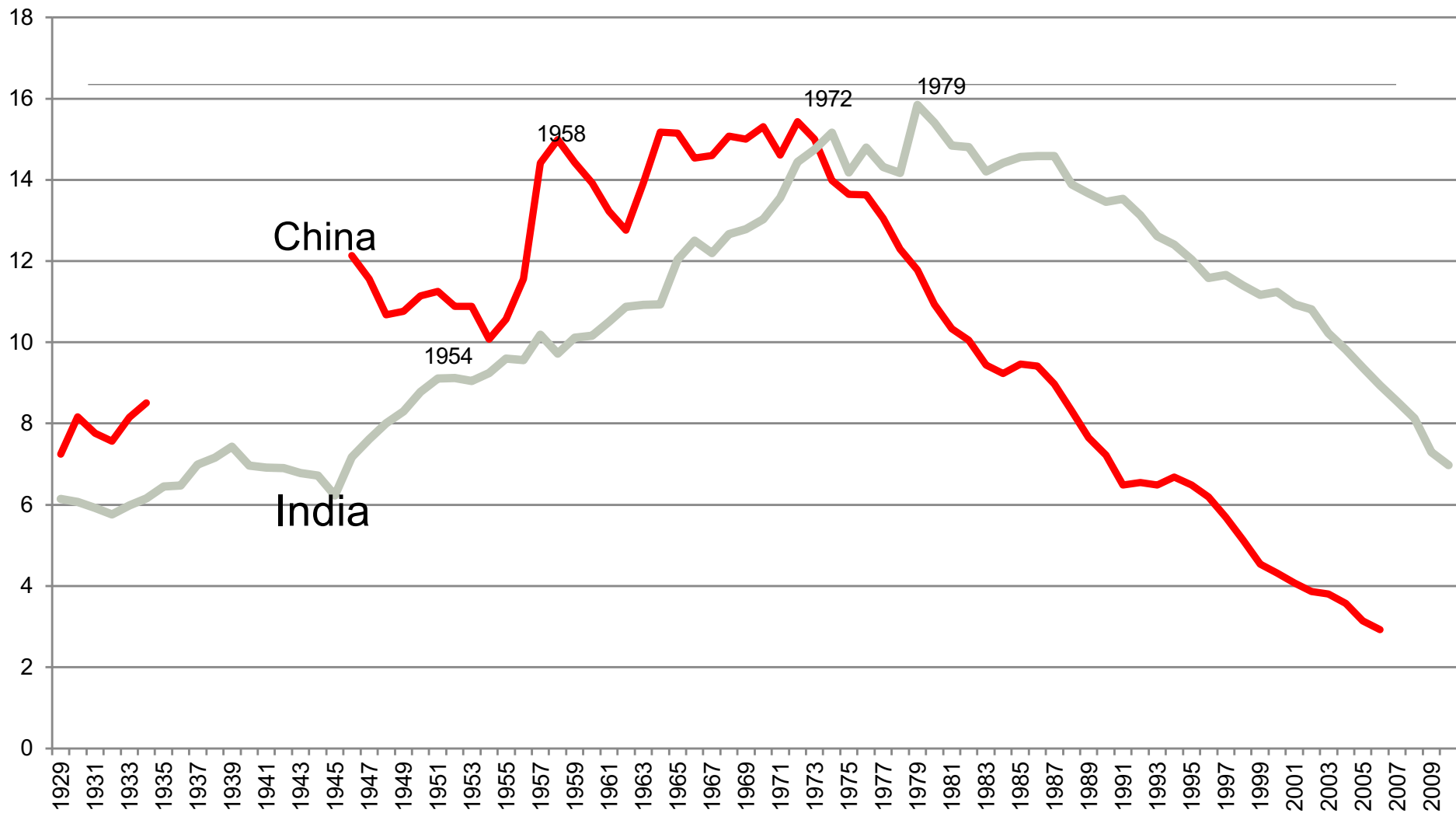
	1	1000	1500	1820	1870	1950	1973	2003	2008
West*	569	426	753	1.202	2.050	6.279	13.379	23.710	24.650
Asia	456	465	568	581	556	717	1.718	4.434	4.533
S America	400	400	416	691	676	2.503	4.513	5.786	7.614
E Europe **	406	400	498	686	941	2.602	5.731	5.705	8.199
Africa	472	428	416	421	500	890	1.410	1.549	1.780
<b>World</b>	<b>467</b>	<b>450</b>	<b>567</b>	<b>667</b>	<b>873</b>	<b>2.113</b>	<b>4.091</b>	<b>6.516</b>	<b>7.614</b>
<i>West/Rest</i>	1,3	0,9	1,4	2,1	2,3	4,5	5,6	5,7	5,5

Source: 1-2003 Maddison, 'Ressurrection'; 2008: derived from "Maddison Homepage"

# PIBpc China, India, ECAs (1990 US\$)



# PIBpc ECAs/China e ECAs/India





# The “Century of Humiliations”, 1820-1912



Ano	PIBpc (US\$1990)
1500	550
1820	600
1850	600
1870	530
1890	540
1900	545
1912	552



# Brief Recovery (1926-37) and Abyss (1937-49)

Chang Kai Chek regime, 1926-37 provides railroads and stable currency:

- Some industrialization and agrarian progress
- Central Banks

Japanese Invasioon (Manchuria in 1932; China in 1937-45) and Civil War (1940-9) interrupted growth

Ano	PIBpc (US\$1990)
1912	552
1929	562
1936	597
1949	448

# Mao's rule (1949-76)

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Traditional Elites see their property and political role deleted

Five-year plan (1953-7), with Soviet support

- Heavy industry
- Savings are concentrated in the state

*Great Leap Forward* (“anti-economic policy)

- Agrarian Output increases but per capita consumption diminishes!
- Large-scale famines
- No individual or family incentives with total collectivization of agriculture (and even family life)

# Great Leap Forward 1958

Increase agricultural production through reorganization of agrarian labour

- 'Militarization' of the agriculture
- Collectivization of family life



# Results

Vastly improved literacy

Growth (1949-54)

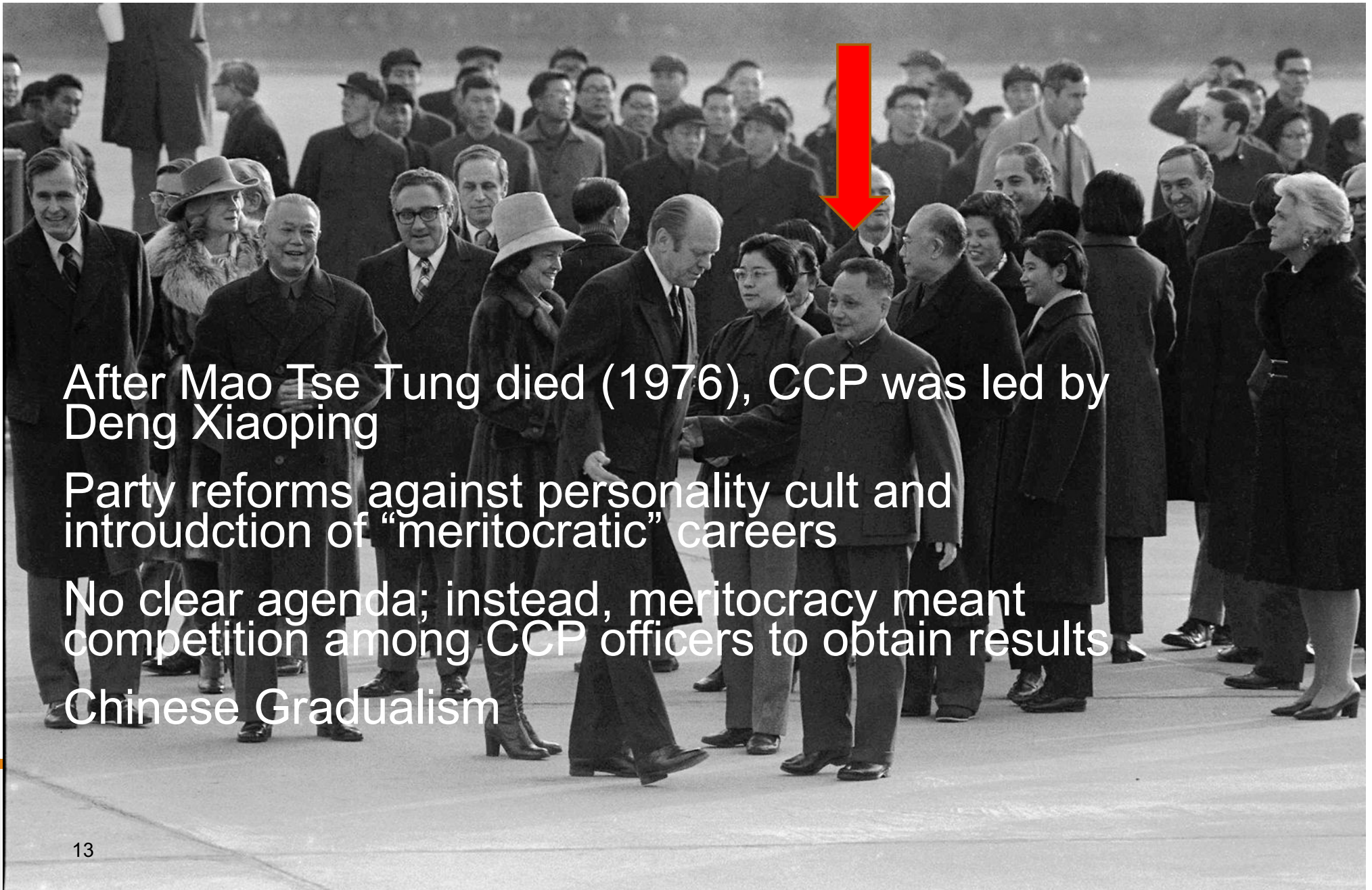
Scientific research (on rice)

However, poor productivity on agriculture and no convergence





# Enter Deng Xiaoping's Reforms



After Mao Tse Tung died (1976), CCP was led by Deng Xiaoping

Party reforms against personality cult and introduction of “meritocratic” careers

No clear agenda; instead, meritocracy meant competition among CCP officers to obtain results

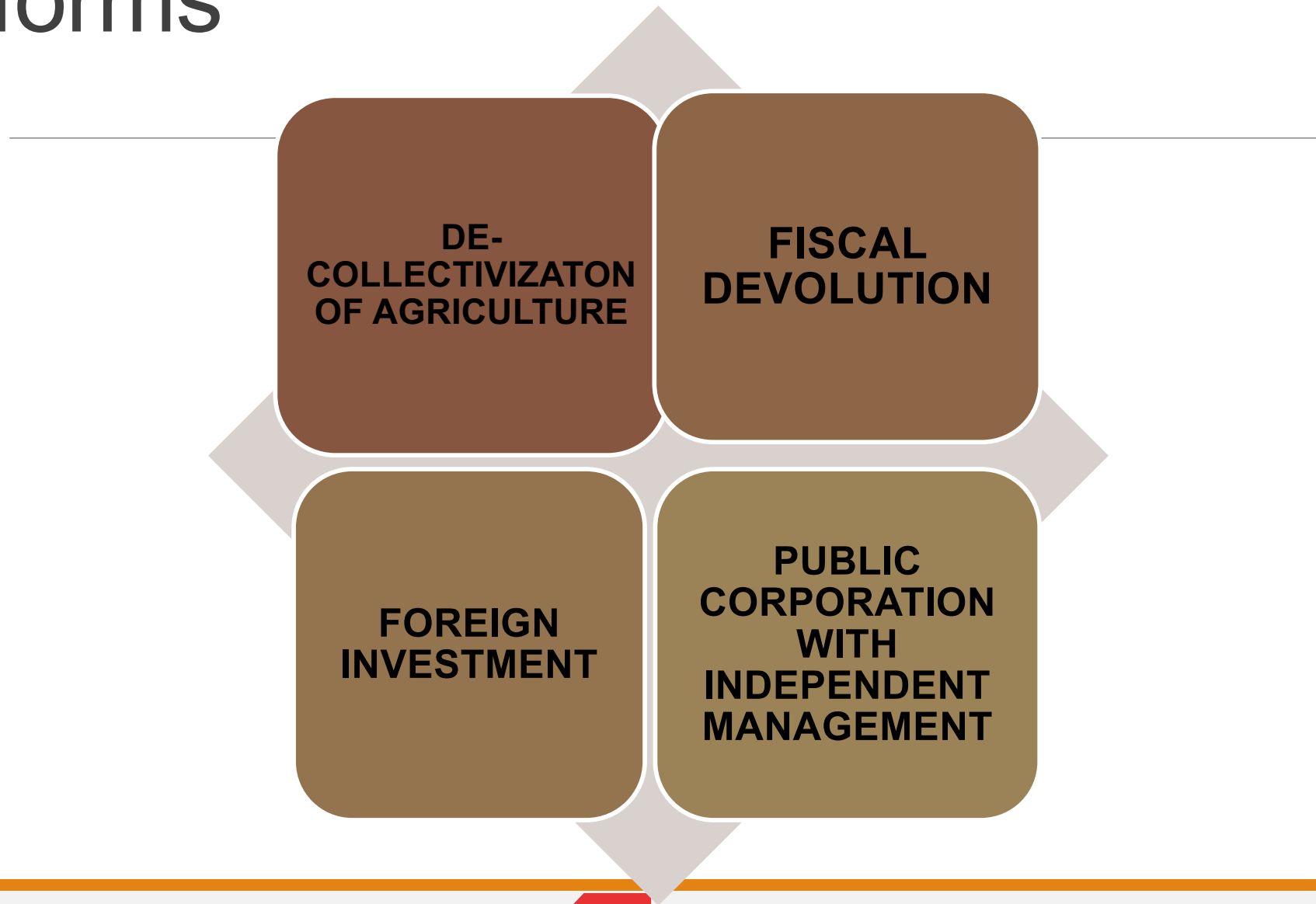
Chinese Gradualism

“Better red than educated!”; Mao Tse Tung, 1966

“The colour of the cat doesn’t matter, as long as it catches mice“ Deng Xiaoping, 1976?



# Deng Xiaoping's "Four-legged" Reforms





# Pro-Global Reforms in 1990s

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Adherence to the WTO (2002)

“Free” international capital flows

Price controls end

“Private Property” legal

“Austerity” in the state sector (with tens of million state officers and workers fired)

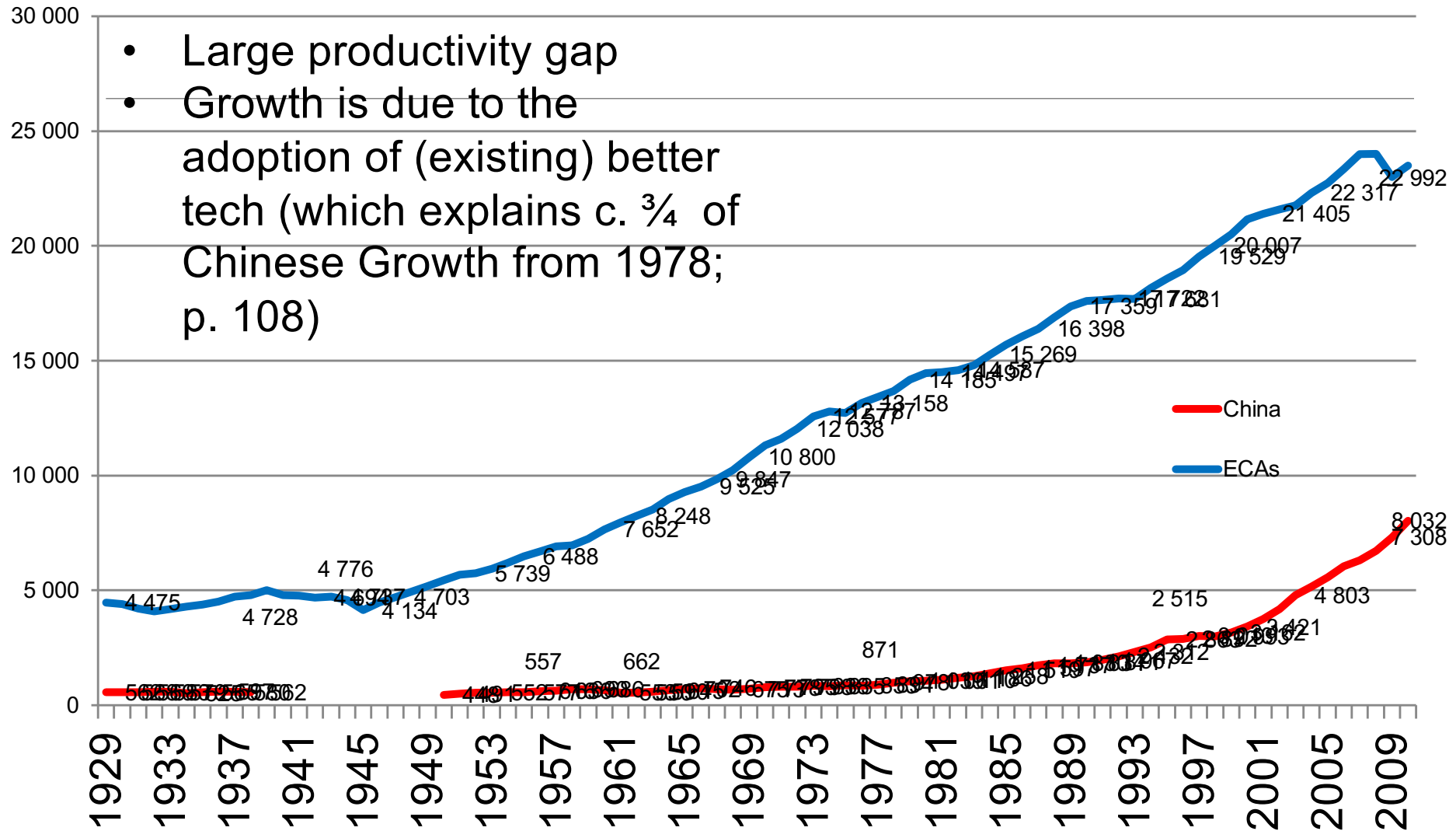
# Conditions for China's Great Convergence

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1. Econ growth became a political goal, institutions were geared to growth (v. Adam Smith)
2. Meritocracy within the party and the (instead of Maoist cult of personality or Confuntionism, during the imperial dynasties)
3. Effective State Centralization (since Mao, elimination of the local elites)
  - BUT MOST OF ALL
4. Globalization (foreign investment ; openness of foreign markets, which allowed to exploit China's comparative advantages)

# Convergence Margin

- Large productivity gap
- Growth is due to the adoption of (existing) better tech (which explains c. 3/4 of Chinese Growth from 1978; p. 108)



# The Challenges Ahead

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Corruption and state capture on behalf of the communist party elite which dominates public sector and banks (“merit”)

Red tap stifling internal investment and entrepreneurs

Abundant capital and investment level but large inefficiencies in capital markets and low returns of investment

Inequality/ Feeble internal consumption

Aging and other demographic problems