

Dear Colleagues,

My talk will focus on my book, *Institutional Genes: The Origins of China's Institutions and Totalitarianism*, which is set to be published in March 2025 (<https://www-cambridge-org.stanford.idm.oclc.org/core/books/institutional-genes/DFA81FF6743415B9BE95117D7E65CD60>).

In the book, I explore the origins and evolution of China's institutions and communist totalitarianism. I argue—both conceptually and through empirical evidence—that contemporary China's fundamental institution is communist totalitarianism. Introducing the concept of *Institutional Genes* (IGs), I examine how the IGs of Soviet Russia merged with those of the Chinese imperial system, resulting in a durable totalitarian regime with distinct Chinese characteristics.

Institutional Genes are fundamental institutional elements that self-replicate, guide institutional changes, and are empirically identifiable. I first examine the origins and evolution of the IGs within the Chinese imperial system, emphasizing how these IGs fused with the communist totalitarian IGs introduced to China by the Comintern of Soviet Russia. This fusion enabled the CCP to establish a totalitarian regime in China.

I further discuss institutional changes during the Great Leap Forward and the Cultural Revolution, analyzing how the hybridization of Soviet totalitarian IGs and traditional Chinese IGs gave rise to a *Regionally Administered Totalitarian* (RADT) system. I also explore how the RADT system facilitated China's rapid economic development during the reform and opening-up period, ensuring high economic growth and the survival of the CCP (partly based on my earlier works with co-authors, such as Qian and Xu, 1993; Maskin, Qian, and Xu, 2000; Xu, 2011). While this growth transformed China into a totalitarian superpower, I argue that the RADT system underpins the challenges we have observed in the past decade and renders its economic growth unsustainable in the long term.

Due to legitimate copyright concerns raised by the publisher, Cambridge University Press, I can only submit proofs of the table of contents and Section 1.1 of the book (please note that the proofs contain minor typos and errors). As a remedy, and to provide sufficient material, I am also submitting my chapter from

The Cambridge Economic History of China (published in 2022), which summarizes some of the book's main ideas.

Institutional Genes

Origins of China's Institutions and Totalitarianism

CHENGGANG XU

Stanford University

PROOFS



Contents

List of Figures	<i>page</i> xii
Preface and Acknowledgments	xiii
List of Abbreviations	xxi
1 Introduction	1
1.1 Overview	1
1.2 Institutional Divergence	9
1.3 China's Institutional Evolution	14
1.4 The Institutional Regime of Contemporary China: An Outline	16
1.5 The Institutional Genes of Regionally Administered Totalitarianism	19
1.6 Institutional Genes: From the Imperial System to Communist Totalitarianism	24
1.7 Two Additional Examples of Institutional Genes	52
2 Institutions and Institutional Genes: Methodology	59
2.1 The Primary Components of Institutions	63
2.2 Institutional Genes in Institutional Evolution	75
3 Property Rights as a Form of Institutional Gene	91
3.1 Ultimate Control Rights versus the Bundle of Rights: Differing Concepts of Property Rights	94
3.2 Private Property Rights as an Institutional Gene	99
3.3 China's Traditional Legal System: An Instrument of Dominance	105
3.4 Property Rights and Sovereignty in the Chinese Empire	108

4	The Emergence and Evolution of the Institutional Genes of the Chinese Imperial System	122
4.1	Fundamental Features of the Chinese Imperial System: Institutional Genes with a Trinity Structure	123
4.2	The Genesis of Imperial Rule in China	128
4.3	The Emergence and Evolution of the Chinese Empire	136
4.4	The Incompatibility of China's Imperial System with Constitutionalism	159
5	The Imperial Examinations and Confucianism: The Institutional Genes for Imperial Personnel and Ideology	163
5.1	Confucianism and the <i>Keju</i> System versus Christianity and the Church	164
5.2	The Emergence and Evolution of Official Confucianism and the <i>Keju</i> System	177
5.3	The Confucian <i>Keju</i> System Became a Mature Institutional Gene	189
6	The Institutional Genes of Totalitarian Ideology	202
6.1	A Christian Origin: The Münster Totalitarian Regime	206
6.2	The Birth of Secular Communist Totalitarianism	213
6.3	Origins of Babeuf Communism: The French Enlightenment	237
6.4	Marxist Communist Totalitarianism	253
7	Institutional Genes of Totalitarianism: The Tsarist Empire	261
7.1	Similarities between the Imperial Systems of China and Russia	262
7.2	The Genesis of Russia's Institutional Genes: Mongol Rule	265
7.3	The Genesis of Russia's Institutional Genes: Eastern Orthodoxy and the Byzantine Empire	270

7.4	The Institutional Genes of Tsarism	274
7.5	The Product of the Tsarist Institutional Genes	299
8	The Birth of Bolshevik Totalitarianism	315
8.1	Totalitarian Party: The Bolsheviks	316
8.2	Institutional Conditions for Seizure of Power by the Totalitarian Party	336
8.3	Establishing a Full-Fledged Totalitarian System	359
9	The Failure of Reform and Revolution in the Late Qing Period	392
9.1	Constitutionalism in Name Only: The Hundred Days' Reform	393
9.2	Rival to Constitutionalism: Social Darwinism	403
9.3	Failed Constitutional Reform and the Collapse of Empire	408
9.4	Failure of the Republican Revolution (1911–1916)	422
9.5	Revolutionary Parties: The Institutional Gene of “Secret Society”	434
10	Building China's Bolshevik Party	449
10.1	Communist “Jesuits”: The Comintern's Infiltration into China	453
10.2	The China Branch of the Comintern: The CCP	459
10.3	Secret Societies: The Institutional Gene for Building the Party and Its Army	472
10.4	Reign of Terror and the Emergence of a Totalitarian Leader	481
11	Building a Totalitarian Regime: From the Chinese Soviet to the People's Republic	499
11.1	The Establishment of the Chinese Soviet Republic	501
11.2	Mobilization and Domination: Land Reform and the Suppression of Counterrevolutionaries	512

11.3	Emergence of Regionally Administered Totalitarianism during the Revolutionary Era	521
11.4	Sovietization: Building a Full-Fledged Classical Totalitarian System	530
12	Regionally Administered Totalitarianism	543
12.1	Totalitarian Rule through Instilling Fear: The Anti-Rightist Movement	544
12.2	The Great Leap Forward: The First Wave of Establishing RADT	553
12.3	The Cultural Revolution: Consolidating RADT	570
12.4	The Deep-Rooted RADT System and the Shattering of Ideals	585
13	The Post-Mao Reform and Its Cessation: The Rise and Fall of Regionally Decentralized Authoritarianism	594
13.1	Reforms for the Survival of Totalitarianism	596
13.2	Economic Reform: Urgent Reaction to the Collapse of the USSR	614
13.3	Towards Regionally Decentralized Authoritarianism	618
13.4	The Succession in Totalitarian Parties	626
13.5	The Evolution of Opposing Institutional Genes during the Reform Process	630
13.6	Totalitarian Institutional Constraints on Economic Growth	641
13.7	Summary	653
14	Conclusion	658
14.1	Great Challenge: Understanding Totalitarianism	658
14.2	Summary of Institutional Genes and Institutional Evolution	660
14.3	An Empirical Analysis of Totalitarian Regimes	663
14.4	Literature Overview	666

14.5	The Transformation Path of Taiwan: An Institutional Gene Analysis	675
14.6	Institutional Transformation of the Communist Bloc and the Role of Institutional Genes	688
14.7	Concluding Remarks on the Concept of Institutional Genes	720
	References	725
	Index	756

PROOFS

Figures

1.1	The power structure of regionally administered totalitarianism (RADT)	<i>page 20</i>
1.2	Institutional genes of the regional governance structure under RADT	21
1.3	The trinity of institutional genes comprising the governance structure of China's imperial system	22
1.4	Institutional genes of China's <i>junxian</i> bureaucracy since the era of the Sui and Tang dynasties	22
4.1	Institutional genes of China's <i>junxian</i> bureaucracy since the era of the Sui and Tang dynasties	144

I Introduction

I. I OVERVIEW

The fundamental institution of contemporary China is communist totalitarianism with Chinese characteristics. This institution differs fundamentally from non-communist totalitarian regimes, ancient Chinese systems. It also differs in many aspects from the Soviet Union. It originated in Soviet Russia and its deep roots in China are inseparable from the foundations of ancient Chinese institutions. How does this institution dictate the behavior of the contemporary Chinese government? How have China's institutions and their basic features evolved to the shape what we observe today? In which direction will these institutions change in the future? Academic research in this area is generally weak and has many gaps. This book aims to strengthen academic research in this area and fill in those gaps. By doing so, I hope to establish a solid foundation for interpreting China's historical and contemporary context, while offering insights that may assist in predicting potential future shifts. For those who care about China's reforms, this provides the basis for recognizing where the country's fundamental problems lie and for understanding how to reform its institutions.

In this book, totalitarianism refers to an extreme type of modern autocracy characterized by total control over society through a totalitarian party, which is categorically different from any political party (further explained in Chapter 8). A totalitarian party is a modern organization that applies modern methods of control and propaganda. The descriptive definition proposed by Friedrich and Brzezinski in 1956 is still a valid summary of the system. This definition identifies six fundamental, complementary components of

the system: Ideology is at the core of the totalitarian party's control of the populace; and the party monopolizes and relies on ideology, secret police, armed force, the media, and organizations (including businesses) throughout society and controls all resources through this channel (Friedrich and Brzezinski, 1956, p. 126).

The first totalitarian regime that fit the above definition emerged from the October Revolution in Russia in 1917. Since then, the world has seen totalitarian systems founded on various ideologies. However, the term "totalitarianism" was not coined until the 1920s. The value of a totalitarian ideology at the core of the system lies more in providing legitimacy, cohesion, and mobilization to the regime as a governing tool, rather than in its nominal expression, which has purposely been made misleading by the communists (see Chapters 8, 10, 11). In fact, its extreme autocratic nature determines that regardless of its nominal ideology, essential parts of its expressions will be grossly self-contradictory to the operation of that system. For example, for communist totalitarianism with a nominal ideology of Marxism, the fundamental ideology is the dictatorship of the proletariat and the party's unquestionable ruling position (Leninism). These are not only the basic principles of the specific institutional arrangements of the totalitarian regime but also the basis of its legitimacy. However, the communist ideology of absolute egalitarianism and the Marxist ideology of human freedom with humanitarian connotations are in serious contradiction with the operation of the totalitarian system. Anyone who adheres to a given nominal ideology, yet disobeys the paramount leadership, will face severe punishment under the totalitarian system, regardless of their position. They may even face physical elimination, as was the case with figures like Bukharin and Trotsky of the Soviet Union and Liu Shaoqi and Zhao Ziyang of China, among others.

While the entry of communist totalitarianism into China was initiated and strongly supported by the Soviet Communist Party, it is indisputable that the establishment of a communist totalitarian system in China, at the cost of millions of lives, was a choice made

by Chinese revolutionaries, not the Soviet Red Army. The question is, the end of the Chinese imperial system (*dizhi* 帝制)¹ was brought about by a series of reforms and revolutions aimed at promoting constitutionalism,² but why did China ultimately choose the opposite, totalitarianism? Moreover, a recent puzzle is why China is still stuck with totalitarianism after several decades of reform and opening up and with private enterprise already dominating its economy.³ Why has the totalitarian system taken root in China so profoundly? A more fundamental and universal question is, why did human society give rise to a totalitarian system? Why did this system originate in Russia? What similarities exist between the institutional legacies of Russia and China? To answer these questions, this book proposes an analytical concept of institutional genes. “Institutional genes” in this book refer to those essential institutional components repeatedly present throughout history. In Chapters 2, we will discuss the definition and mechanisms of institutional genes in detail. Using this concept, we will analyze the emergence, evolution, and characteristics of contemporary China’s institutions from both a transnational and historical perspective. Additionally, we will explore the genesis of totalitarianism, particularly in Russia. The concept of institutional genes and its analytical framework are significantly inspired by institutional design (mechanism design) theory⁴ and path-dependence theory of North in economics.

Between 1989 and 1992, totalitarian regimes in the Soviet Union and Central Eastern Europe collapsed. This series of historical events stimulated academic research on institutions and spurred significant developments in the field. Several scholars, such as North and Coase, received the Nobel Prize in Economics for their work related to institutions. Nonetheless, aside from Kornai’s work in 1992, most renowned political economy studies have not delved into the subject of totalitarianism, nor have they analyzed the transition from totalitarian to authoritarian regimes in those countries.⁵ This research gap in economics and political economics, in particular, has caused a lack of basic understanding of the regimes of China, the Soviet Union,

and other former communist countries, making it difficult to anticipate or respond to political reversals in those countries. From an academic and policy perspective, this seems similar to the awkward situation economists faced in predicting and responding to the global financial crisis of 2008. However, the comprehensive consequences of a totalitarian superpower across the globe, from direct geopolitical, economic, and military impacts to the indirect influence on the institutions of other countries, far surpass the consequences of a financial crisis in terms of breadth and depth. The propositions discussed in this book, therefore, pertain to institutional evolution in general and are not limited to China, Russia, or countries experienced in totalitarian rule.

This book presents and develops the basic concept, or analytical framework, which I refer to as “institutional genes.” “Institutional genes” is a term I coined in this book. It refers to essential institutional elements that serve as the foundations for other institutional elements and often appear repeatedly in history. It is a methodological approach proposed for the in-depth analysis of major issues in institutional evolution. This book applies the institutional genes framework to organize historical evidence, using historical narratives to elucidate why the constitutional revolutions in Russia and China in the late nineteenth and early twentieth centuries faltered. It also examines the paradoxical outcome of these revolutions, which, rather than fostering constitutional principles, instead gave rise to totalitarian systems that contradicted them. Further, it sheds light on the crucial institutional changes that these two countries have undergone over the past century and their lasting influence not only on their own trajectories but also on the global political economy.

There are many conceptions of institutions. In this book, the discussion of institutions focuses on three fundamental elements: human rights, property rights, and political power. In connection with this focus, the Locke–Hayek thesis on the inseparability of human rights and property rights is reinterpreted in the context of the history and reality of totalitarianism (Chapters 2 and 3). The

essence is that the property rights structure of any society is inseparable from the structure of political power in that society, as can be observed from the arguably most egalitarian distributional structure of Scandinavian regimes to the most unequal structures of communist regimes. Accordingly, the concept of property rights used in this book is based on the notion of ultimate control rights – a concept employed by Locke, Marx, Mises, Hayek, and Hart (residual rights, Hart, 2017), and one that was widely accepted in academia and practice before the twentieth century. Chapter 3 explores the relationship and differences between this concept and the concept of “bundle of rights” that has gained popularity since the twentieth century. Throughout the book, the origins of totalitarian systems are explored through historical narratives, emphasizing how the institutional genes of these regimes stemmed from a deep-rooted monopoly on property rights and power and the resulting social consensus that solidified these structures.

From the perspective of property rights and power structures, a totalitarian regime consolidates all property rights and power within society under the control of the totalitarian party, thereby subjecting all individuals’ human rights entirely to the party’s authority. In contrast, no dictator, government, party, or institution in any other autocratic system enjoys such comprehensive control over property rights and power. Furthermore, the nature of the totalitarian party dictates that it is not a political party in the conventional sense (as detailed in Chapter 8).

With the world currently facing the threat of the totalitarian power of the Chinese Communist Party (CCP), it is particularly important to revisit Mises’ warning at the end of the Second World War – that the free world’s multi-decades’ efforts to contain totalitarianism have all failed. Unfortunately, this warning has long been completely forgotten. The neglect of totalitarianism in academic and policy circles has allowed the CCP to receive unchallenged assistance from the West across various domains, fueling its meteoric rise not only in economic strength but also in the expansion of its propaganda,

police, and military capabilities. Even today, recognizing the totalitarian nature of the CCP remains a significant challenge in the West. Under such favorable conditions, the collapse of the Former Soviet Union and Eastern European (FSU-EE) totalitarian bloc was followed by the unfortunate expansion of the Chinese totalitarian regime into a threatening superpower – a development that could not have occurred without the support of the United States and other democratic nations. Existing academic discussions on totalitarianism, while still valid, are largely based on decades-old literature. These discussions have often been confined to philosophy, intellectual history, or the historical records of Soviet Russia, with few efforts made to systematically study the comprehensive and fundamental mechanisms of totalitarianism within the context of the century-long rise of communist totalitarian regimes. Addressing these gaps, Chapters 6 to 8 of this book explore the origins of totalitarianism as both an ideology and a system, the reasons it emerged first in Russia, and the mechanisms through which it rises and operates.

Totalitarian regimes are characterized by the complete eradication of private property and total control over society through extreme violence. Such regimes emerged from a secular political-religious movement known as the World Proletarian Revolution. This movement, driven by the pursuit of egalitarianism and a form of secular messianism, relied on the so-called class struggle, which was both highly seductive and inflammatory, fueled by hatred toward the so-called class enemies. However, this secular religious movement only succeeded in societies that possessed specific institutional genes – a highly monopolized structure of property and political power, along with a corresponding social consensus (Chapter 6). The communist totalitarian movement was first established in Russia because it had the necessary institutional genes to create such a regime. These genes included the autocratic Tsarist regime, the pervasive influence of Russian Orthodoxy, and the well-developed network of sophisticated secret (terrorist) political organizations (Chapter 7).

The Bolshevik Party, the world's first communist totalitarian party, originated as a secretive political organization. Chapter 8 discusses the creation of this party and its transformation into a full-fledged totalitarian party, including the development of its operating mechanisms. The role and mechanisms of the institutional genes that facilitated the formation of the Leninist party in establishing and consolidating a totalitarian regime are analyzed. The creation of the Soviet regime involved the suppression of opposition through the dictatorship of the proletariat, the establishment of a Red Terror regime, the creation of comprehensive state ownership, and the formation of the Comintern (Communist International), the organization that spearheaded global communist totalitarian revolutions. The CCP and other communist parties around the world were established with the support of the Comintern, with their founding principles and operational mechanisms transplanted from the Communist Party of Soviet Union (CPSU). To this day, all the CCP's fundamental principles remain derived from the CPSU. Additionally, Chapter 8 systematically analyzes the basic nature and operational mechanisms of totalitarian parties and how these evolved from the institutional genes of Tsarist Russia. This analysis is essential for understanding the nature of totalitarian parties in general, making this chapter crucial even for readers primarily concerned with China.

Chapters 4, 5, and 9 analyze the origins and evolution of the institutional genes of the Chinese imperial system and the mechanisms by which these genes impeded the development of constitutionalism within it. Chapters 10–13 explore how communist totalitarianism was transplanted into China by the Comintern, how China's institutional genes facilitated the establishment of this totalitarian system, and how a Soviet-style communist regime was formed. The chapters also delve into the evolution of communist totalitarianism with Chinese characteristics – regional administered totalitarianism – during the Great Leap Forward (GLF) and the Cultural Revolution (CR) in the Mao era, and how this system supported economic development and reforms during the post-Mao

era, ultimately preserving CCP rule while leading China into the trap of totalitarianism. From these discussions, it becomes clear that the so-called “middle-income trap” phenomenon observed since the late 2010s is merely a manifestation of the totalitarian trap, inherent in the nature of totalitarianism itself.

The final chapter briefly discusses the institutional transformations of the FSU-EE totalitarian bloc and Taiwan through the lens of institutional genes and explores the implications of these transformations for China’s future. The key feature that distinguishes the Chinese system from the FSU-EE totalitarian regimes – Regional Administered Decentralized Totalitarianism (RADT) – was instrumental in enabling China’s private enterprises to flourish under communist rule during economic reforms, becoming the primary engine of China’s economic growth and thereby sustaining the Chinese Communist regime. However, the sweeping reversal since the late 2010s suggests that the CCP may not be able to fully escape the fate of the CPSU. The fundamental institutions of communist totalitarianism remain unreformable and economic reforms appear destined to fail (Chapters 13 and 14). Furthermore, the peaceful abandonment of totalitarianism by the FSU-EE Communist parties was driven not only by economic stagnation but also by immense social pressure and a growing social consciousness regarding human rights and humanitarian values. These pressures and social consensus are deeply rooted in the institutional genes of the FSU-EE countries (Chapter 14). In comparison, China has a much weaker social awareness of human rights and humanitarianism. Additionally, under CCP rule, the military has long been involved in politics and the CCP has deliberately institutionalized the grooming of princelings as successors (Chapter 14). These factors suggest that even in the face of prolonged economic stagnation, it may be more difficult for the CCP leadership to peacefully renounce totalitarianism than it was for their FSU-EE counterparts.

The key to understanding Taiwan’s democratic transformation lies in recognizing the pre-existing differences in institutional genes

between Taiwan and mainland China, as well as the fundamental differences between authoritarian Kuomintang (KMT) rule and totalitarian CCP rule in suppressing the institutional genes necessary for constitutional democracy (Chapter 14). First, the short-lived rule of the Chinese imperial system in Taiwan ended as early as the late nineteenth century, leaving only a shallow influence of Chinese imperial institutional genes on the island. During the Taisho democracy era under Japanese rule, Taiwan began to develop the institutional genes of constitutionalism, including local elections and the assembly of political parties. Furthermore, the Comintern never reached Taiwan and the KMT was not a totalitarian party. Under KMT authoritarian rule, the institutional genes of democratic constitutionalism were suppressed but not eradicated; in fact, some were able to survive and even grow, albeit with difficulty. During the authoritarian period, when the Republic of China (ROC) Constitution was partially implemented, these institutional genes saw significant development through local elections, the rapid expansion of private enterprises, and the spread of civil society. This led to a growing social movement toward constitutional democracy. Taiwan's institutional transformation was achieved precisely because the KMT authoritarian rulers yielded to and responded to this tremendous social pressure.

I.2 INSTITUTIONAL DIVERGENCE

China, Russia, and Japan, at the turn of the nineteenth and twentieth centuries, each endeavored to promote the establishment of constitutional government. Japan succeeded while China and Russia failed. Since then, there has been an ongoing institutional divergence between these three powers that has had a major impact on the world.⁶ Japan was the first non-Western country to establish a constitutional government and became the first developed nation outside of Europe and North America (a thorough discussion of Japanese institutional changes, including its period of militarism, is beyond this book). After decades of endeavors towards a constitutional monarchy and republic, which ended their imperial systems, Russia and

The Origin of China's Communist Institutions

CHENGGANG XU

Introduction

In the nineteenth century, the Chinese Empire – the longest-lasting empire in human history – was the largest economy on earth with a decent per capita GDP level. But it shrank rapidly after its collapse. Since the founding of the PRC in 1949, China had been one of the poorest economies in the world until the post-Mao reform, which has enjoyed high growth for three decades.¹ But a sustained slowing down since 2009 reminds us of the trend of the Soviet economy since the mid-1970s.²

Understanding the nature of the Chinese institutions and their drastic changes, particularly since the rise of the Chinese Communist Party (CCP), is critically important for making sense of the Chinese economy in the past seven decades. This is because China's institutions have been distinctive in the world both historically and contemporarily. After decades of unsuccessful Republican revolution efforts, in 1949 the CCP seized power by armed force, and transplanted Soviet-type totalitarian institutions into China. In this

I thank Patrick Bolton and Debin Ma for very helpful comments, and Nancy Hearst for copyediting. I have benefited greatly from comments in workshops at Utrecht, CKGSB, HUJI (Jerusalem), and the Coase Institute (Tel Aviv and Warsaw), and comments in my public lectures at Stanford, CUHK, Corvinus, FMSH-Paris, Sinica-Taiwan, WINIR-Hong Kong, and AEA-ACES. I acknowledge support from the CKGSB and the hospitality of Corvinus University of Budapest, Imperial College London, and the LSE.

¹ A. Maddison, *The World Economy: Historical Statistics* (Paris and Washington, DC, Organisation for Economic Co-operation and Development, 2003); C. Xu, "The Fundamental Institutions of China's Reform and Development," *Journal of Economic Literature* 49.4 (2011), 1076–1151.

² W. Chen, X. Chen, C.-T. Hsieh, and Z. Song, "A Forensic Examination of China's National Accounts," Brookings Institution paper on economic activity, conference draft, March 2019. The Soviet economy started to slow down steadily from the time when its per capita GDP reached one-third of the US level. Maddison, *The World Economy*. In comparison, Chinese per capita GDP (in purchasing-power parity) today is about one-quarter of that of the US. World Bank (2021), at <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.KD>.

chapter, totalitarianism is defined (or described) as a modern party-state institution, whereby in all respects the party totally controls (1) the state, (2) the armed forces, (3) the economy, (4) the media, and (5) the ideology.³

Importantly, the Chinese did not completely stick to a Soviet totalitarian model, like other Eastern Bloc nations. Instead, taking the totalitarian institutions as their root, the Chinese institutions have been further evolving, until today. Two waves of campaigns led by Mao – the Great Leap Forward (GLF) (1958–1960) and the Cultural Revolution (CR) (1966–1976) – changed Chinese institutions into what I call regionally decentralized totalitarianism (RDT), in which some of the features of Chinese imperial institutions reappeared prominently while fundamental features of totalitarianism were kept. Under China’s RDT regime, the CCP, as the sole political party, monopolizes all political power and controls the most important personnel matters in the country, including the enormous party-state bureaucracy that penetrates every level of the entire society. It is because of this combination of an extremely high degree of political centralization and a high degree of administrative decentralization that Chinese institutions are unique in the world. Yet administrative and economic issues are highly decentralized to party-state agents at the regional levels.

The RDT institutions were the institutional basis for the post-Mao reforms.⁴ From the 1980s, under its RDT regime, Chinese institutions created the powerful mechanisms, i.e. regional competition and local experimentation, that were responsible for the success of the early post-Mao reforms, particularly the creation and growth of the private sector within a totalitarian regime. With the changes during the early stages of the reform process, the Chinese RDT institutions gradually evolved towards what I called regionally decentralized authoritarian (RDA) institutions.⁵ In comparison, authoritarianism is a less extreme type of autocracy in which limited pluralism is

³ C.J. Friedrich and Z.K. Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge, MA, Harvard University Press, 1956). Regarding victims of the two major types of totalitarian regimes worldwide, “Communist regimes have victimized approximately 100 million people in contrast to the approximately 25 million victims of the Nazis.” S. Courtois, “Introduction,” in S. Courtois, N. Werth, J.-L. Panné, A. Paczkowski, K. Bartosek, and J.-L. Margolin, *The Black Book of Communism: Crimes, Terror, Repression* (Cambridge, MA, Harvard University Press, 2015), p. 15.

⁴ In the media the post-Mao reform is often referred to as the Deng Xiaoping reform. But I will explain later in this chapter that this popular description is controversial, or errs in many important historical facts.

⁵ C. Xu, “The Fundamental Institutions of China’s Reform and Development.”

allowed, economically and ideologically. But the hardcore CCP leaders would not tolerate the evolution from totalitarianism towards authoritarianism, so this trend was aborted, and we are observing a return to RDT since 2012. It is because of this combination of an extremely high degree of political centralization and a high degree of administrative decentralization that Chinese RDT/RDA institutions are unique in the world.

How and why have Chinese institutions evolved in the ways we observe? What are their impacts on the economy? What are their origins? This chapter will explain how Chinese RDT/RDA institutions originated from Chinese imperial institutions and Soviet totalitarian institutions. These explanations are a base for understanding later institutional changes which led to devastating disasters from the late 1950s to the mid-1970s, spectacular growth at earlier stages of the reform, and grave problems in recent years. Due to the space limitations of this chapter, my discussions will focus on key arguments and evidence, many of which are stylized facts abstracted from details, with some reference to my book in progress, *Institutional Genes: A Comparative Analysis of the Origin of Chinese Institutions*.

Institutional Genes: An Analytical Concept

Analyzing institutional evolution is a huge intellectual challenge. To facilitate our discussions, let me first briefly lay out my conceptual framework. When examining long historical processes of institutional change, one can observe some regularity whereby certain basic institutional elements appear repeatedly, even when there are important regime changes. More importantly, some of these repeatedly reproduced institutional elements have deep impacts on the long-term trajectories of further institutional changes. I call these repeatedly reproduced institutional elements “institutional genes.”⁶

The institutional gene is defined as the basic institutional element that determines the players' incentives. They are repeatedly self-produced, reproduced, and evolved with the change of institutions over a long historical process. Institutional changes are endogenous processes in that, given the existing institutions and other constraints, they are created through strategic interactions among players (referring to all individuals in a society). The reproduction of institutional genes in a changing environment is caused by

⁶ C. Xu, “Institutions and Institutional Genes,” in Xu, *Institutional Genes: A Comparative Analysis of the Origin of Chinese Institutions* (forthcoming from Cambridge University Press).

players' selection of certain institutional elements from existing institutional genes out of self-interest. This sheds new light on the "path dependence" nature of institutional change, a popular concept in the literature of economic history.⁷ We explain the processes of institutional evolution by identifying the reproduction and evolution of the institutional genes. This helps us understand the mechanisms of institutional evolution over and over again during historical processes, and their consequences.

For understanding institutional genes and their evolution, the following concepts are essential. Among institutions, those with rules that are followed regularly (including under threat and coercion) are stable.⁸ An institution is regarded as an incentive-compatible institution if the incentives that the institution provides (including social norms) are compatible with the majority of players (including rulers and the ruled) in the institution: i.e. the players chose to follow the rules of the institution. Here, incentives consist of material and nonmaterial rewards and punishments, which can include imprisonment, torture, and killing. Thus coercive rules can also be incentive-compatible as long as individuals choose to follow under the threat of the rules.

Similarly, incentive-compatible (IC) transformation is defined as being when the incentives of the key players are consistent with the rules established by the transformation. Thus an IC transformation is more likely to be stable, whereas a non-IC transformation is more likely to be unstable, as the incentives of a majority of key participants are violated.

Institutional Genes in the Chinese Empire and the RDT/RDA Regime

To establish a foundation for later analysis of the origins of China's institutions in the remainder of this chapter, this section briefly illustrates how the institutional genes of the Chinese empire evolved and reproduced over the two millennia of the history of the Chinese empire, and outlines the institutional genes of contemporary Chinese RDT/RDA regimes. Figure 15.1 depicts the institutional genes of the Chinese empire.

In Figure 15.1 there are three basic institutional elements (blocks), reflecting the strong complementary relationship of these blocks. I call this gene

⁷ D.C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge, Cambridge University Press, 1990).

⁸ Here being stable is a neutral description which does not bear any normative meaning.

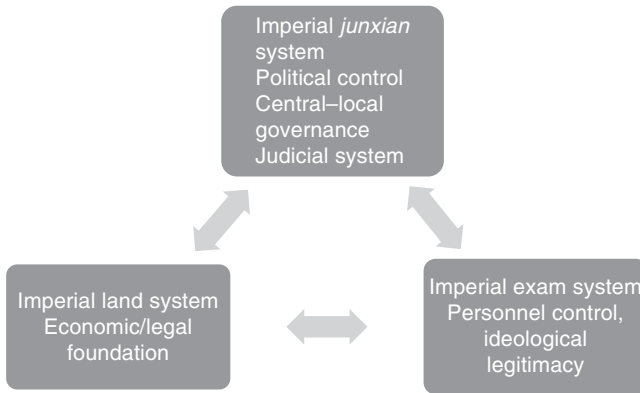


Figure 15.1 The institutional genes of the Chinese empire: an institutional trinity

map an institutional trinity.⁹ The central block is the bureaucracy, led by the emperor and the imperial court, the imperial *junxian* 郡县制 system. This system emerged during the Spring and Autumn period and became the dominant governance institution of the Chinese empire from 220 BC until the collapse of the Chinese empire in 1911.¹⁰ The *junxian* bureaucracy was composed of multiple levels, from the top – the imperial court and the central government – to the bottom – the county governments. The judicial system was completely integrated into the executive bureaucracy, and the emperor was the supreme judge of the empire.

The lower-left block of the institutional trinity is the imperial land system, featuring the ultimate imperial land property rights, which were the economic and legal foundation of the empire. This building block was established simultaneously with the creation of the *junxian* system. The emperor possessed ultimate rights to all the land in the entire empire.¹¹ Imperial land rights are indispensable for the survival and stability of the Chinese empire as they eliminated the economic and legal foundations for

⁹ C. Xu, "Institutional Genes of the Chinese Empire," in Xu, *Institutional Genes*.

¹⁰ Zhou Zhenhe 周振鹤 and Li Xiaojie 李晓杰, *中国行政区划通史* (The History of Chinese Administrative Divisions) (Shanghai, Fudan daxue chubanshe, 2009), p. 1.

¹¹ Beginning in the Song dynasty, landlords and peasants were allowed to trade their land rights on the market. But there were strict restrictions on the amount of land that could be purchased and accumulated. No one was allowed to possess an amount of land that would be sufficient to enable him to challenge the county government. Moreover, the emperor was entitled to repossess any land he needed or desired, or if the landlord was found to be disloyal or noncompliant with the throne.

the landed nobility; they also served to prevent anyone from accumulating landed power through the purchase of land.¹²

The lower-right block of the institutional trinity is personnel control and the imperial examination system. The emperor controlled all bureaucrats through selection, appointment, and promotion/demotion, among other things. By controlling the selection of candidates for the bureaucracy, the imperial examination system deprived everyone except the emperor of inherited powers. At the same time, by designing the content of the imperial examination, the emperor and the imperial court used it as an ideological control mechanism to maintain the legitimacy of their rule.

After the imperial examination system was created, many contradictions appeared between the aforementioned central and the lower-left blocks of the institutional trinity, as revealed by the unstable nature of the Qin–Han imperial institutions, when high officials in the bureaucracy could accumulate power by inheriting bureaucratic titles across generations. Despite the lack of *de jure* ownership of the land they managed, some high officials became *de facto* nobility, with their accumulated power. The creation and growing power of such *de facto* seigneurs gradually eroded and challenged the central authorities, eventually leading to the disintegration of the empire. The Chinese empire was not stabilized until the imperial examination system was established (during the Sui dynasty, 581 AD) and perfected (in the Tang dynasty, 618 AD, and the Song dynasty, 960 AD).¹³ This stable and consolidated imperial examination institution lasted until the early twentieth century, making the Chinese empire distinctively different from other empires in the world.

To control the territory of what had been one of the largest empires in human history is an immense challenge. Figure 15.2 depicts the institutional genes of the administrative governance structure of the empire, i.e. the imperial *junxian* system, which was fully established during the Qin empire. After evolving for hundreds of years, this system was codified and institutionalized in the Sui Code, then essentially copied into the Tang Code, and then largely continued in the administrative laws of the later dynasties of the Chinese empire until the eventual dissolution of the system.¹⁴

¹² C. Xu, "Property Rights and Sovereignty under the Chinese Empire," in Xu, *Institutional Genes*.

¹³ Zhang Xiqing 张希清, Mao Peiqi 毛佩琦, and Li Shiyu 李世愉, *中国科举制通史* (General History of the Chinese Imperial Exam System) (Shanghai, Shanghai renmin chubanshe).

¹⁴ Zhou and Li, *中国行政区划通史*.

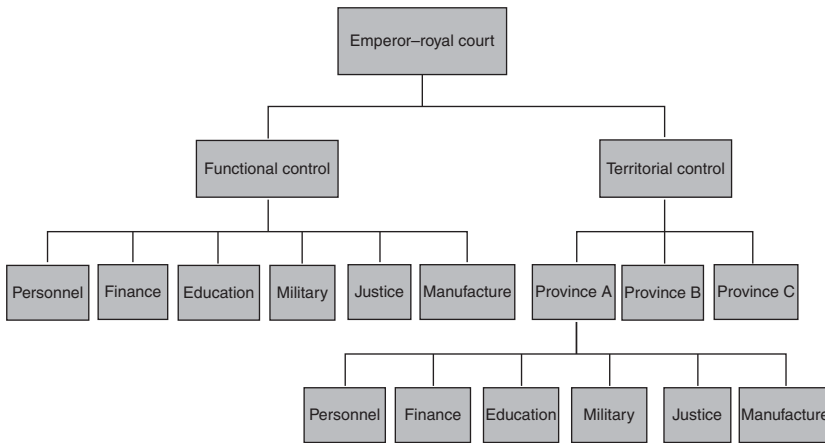


Figure 15.2 The institutional genes of the imperial *junxian* system

The top ruler of the *junxian* bureaucracy was the emperor, who governed all local governments via the imperial court. All bureaucrats in the subnational governments – at the provincial, prefectural, and county levels – were appointed and managed by the imperial court, and all of the appointed bureaucrats had to retire after completion of their tenures, i.e. by the rule that no one could pass power on to descendants. Another key feature of the *junxian* system was its decentralization of concrete administrative matters whereby subnational governments played central roles in local administrative matters. A good illustration of this feature is how administrative functions were co-ordinated at each level of government. At the national level, all administrative tasks were divided into six functions: personnel, finance, education, military, justice, and manufacturing/construction (*li* 吏, *hu* 户, *li* 礼, *bing* 兵, *xing* 刑, *gong* 工) and managed by six ministries (*liu bu* 六部).

Replicating this structure, at each subnational, provincial, prefectural, and county level, the local government controlled the six administrative functions, through six offices (*liufang* 六房), e.g. at the county level.¹⁵ Importantly, it was the responsibility of the head of the local government to co-ordinate all the administrative functions within a jurisdiction. In

¹⁵ For concrete information on stereotypical bureaucratic offices at the county level and the office layout in a typical county government, which impacted contemporary institutions, see Bai Hua 柏桦, *明代州縣政治體制研究* (Prefectural- and County-Level Political Systems during the Ming Dynasty) (Beijing, Zhongguo shehui kexue chubanshe, 2003); Miao Quanji 繆全吉, *明代胥吏* (Local Officials during the Ming Dynasty) (Taipei, Jiaxin shuini gongsi wenhua jijinhui, 1969).

contrast, although a minister had the same bureaucratic rank as a provincial governor, in general he would not make direct decisions regarding the functionalities of the subnational localities. This combination of political and personnel centralization and administrative decentralization represented a compromise between top-down control and implementation efficiency.¹⁶

As an illustration of the persistence of institutional genes, the institutional elements depicted above endured through dynasties and rebellions and have been replicated again and again not only in those dynasties established by rebellious elites or created by rebellious peasants who overthrew the preceding dynasty, but also in the dynasties established by the Mongols or the Manchus. Moreover, such institutional elements of the Chinese empire were reproduced even years after the collapse of the empire. When China's institutions were transformed from those of Soviet totalitarianism to those of RDT, one of the key institutional elements re-established was the *junxian* structure illustrated by Figure 15.2.

Before turning to explanations of why totalitarianism has prevailed in China, let us now compare the institutional genes of the past and present. Although the Chinese empire was dissolved more than a century ago and the CCP has always declared its ideology to be anti-feudal (which is the CCP's way of labeling the Chinese imperial system), similarities between the institutional genes of the Chinese empire and those of the Chinese RDT/RDA regime can be seen clearly. Parallel to Figure 15.1, Figure 15.3 depicts the governance structure of the Chinese RDT/RDA institutional trinity at an abstract level.¹⁷ The seemingly superficial similarity between the institutional genes of the past and those of today provides deep insights, which will be explained below.

Similar to the structure of the institutional genes of the Chinese empire, the institutional trinity of the RDT/RDA regime comprises three basic institutional blocks: the party-state bureaucracy, party-state ownership of land/finance, and party-state control over personnel and ideology. Moreover, the judicial system is also fully integrated into the top-down party-state bureaucracy in the central block.

Akin to the Chinese empire, the lower-left institutional block is the economic, legal, and power foundation of the CCP and the RDT/RDA regime.¹⁸ It consists of complete state ownership of

¹⁶ Xu, "Institutional Genes of the Chinese Empire."

¹⁷ C. Xu, "A Full-Fledged Totalitarian Regime in China," in Xu, *Institutional Genes*.

¹⁸ The imperial land system of the Chinese empire is an essential part of its institutional genes, upon which totalitarianism based on state ownership is developed. C. Xu, "Property Rights as Institutional Genes," in Xu, *Institutional Genes*.

The Origin of China's Communist Institutions

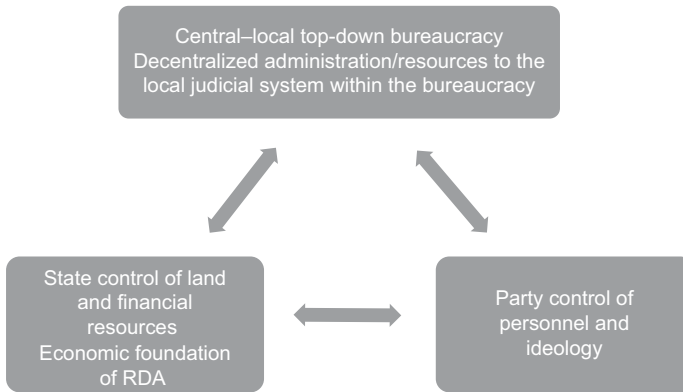


Figure 15.3 The institutional trinity of the RDT/RDA system

land;¹⁹ overwhelming state ownership of financial resources and other assets, including most of the banks in China and the majority of companies listed on the Chinese stock markets; and monopolization of all strategic sectors in the Chinese economy. Similar to the imperial institution, the lower-right institutional block – control by the central party of national personnel and ideology – is the key element to guarantee ultimate control by the central authority over all government levels and all individuals.

Parallel to Figure 15.2, Figure 15.4 depicts a highly stylized governance structure of the central–local party-state bureaucracy of an RDT/RDA regime. This simplified figure shows only two levels in the hierarchy. In reality, the Chinese government consists of a multilevel hierarchy that, below the central level at the top, features three levels of subnational governments: the provincial level, the municipal level (or the prefectural level), and the county level. Most administrative, economic, and public-service functions are carried out by the subnational governments. Each region is self-contained, and each subnational government controls all major functions, such as personnel,²⁰ finance, industry, agriculture, and so forth within its respective

¹⁹ The concept of ownership here is defined as the residual control rights of ultimate control rights. O. Hart, *Firms, Contracts and Financial Structure* (Oxford, Clarendon Press, 1995). According to the PRC State Constitution, the state has ultimate control rights over all land in the country, including “collectively owned” arable land, since the collectives must surrender their ownership to the state either when requested by the state or when their land is to be used for nonagricultural commercial purposes.

²⁰ Highly centralized control over nationwide personnel matters is implemented by a nested structure. The central authority directly controls personnel matters at the

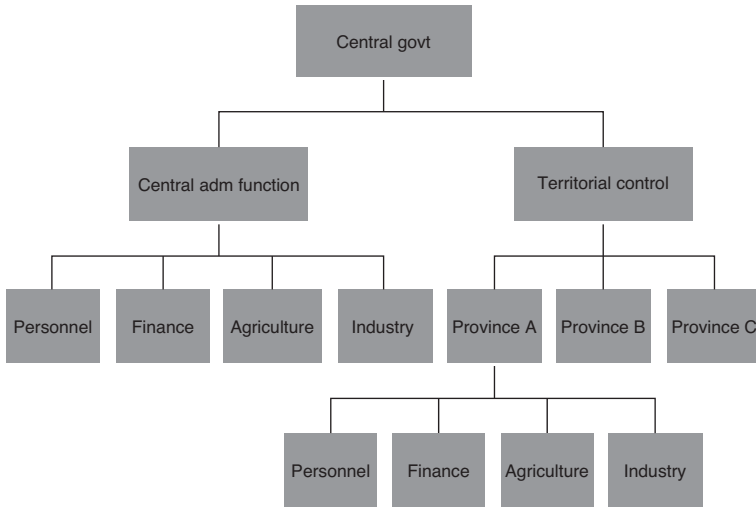


Figure 15.4 Stylized governance structure of China's RDT/RDA central-local regime

jurisdiction. The national government is relatively hands-off in most concrete operations of the national economy, whereas the subnational governments are deeply involved in the economies within their respective jurisdictions.²¹ Comparing this structure with Figure 15.2, one can easily identify the related institutional genes in the imperial *junxian* system.

However, the Chinese empire and the RDT/RDA regime are categorically different in one crucial respect, the Leninist party, which was implanted from the Soviet Union to China and has ruled China totally for more than seven decades. The Party as a modern organization is ubiquitous, controlling the whole fabric of society from top to bottom. The next two sections explain briefly how totalitarian institutions were created in the world, and how they were introduced into China.

provincial level, whereas the provincial authorities directly control personnel matters at the city levels within their respective jurisdictions. Finally, the city-level authorities directly control county-level personnel matters within their respective jurisdictions. To guarantee that the central authority is able to control all important personnel matters, all key party-state positions are subject to rotation.

²¹ Y. Qian and C. Xu, "Why China's Economic Reforms Differ: The M-Form Hierarchy and the Entry/Expansion of the Non-state Sector," *Economics of Transition* 1.2 (June 1993), 135–70; Xu, "The Fundamental Institutions of China's Reform."

The Origins of the Institutional Genes of Totalitarianism

It is well documented that the CCP was created by the Comintern, which was a Russian agency founded and led by Lenin almost immediately after the totalitarian regime was created in Russia. The CCP developed in China very rapidly. Only one decade after the creation of the CCP, the Chinese Soviet Republic was created (in 1931), when the Baltic states were not part of the Soviet Union yet. In less than two decades the CCP had taken over the entirety of China by military victory, and in 1949 established the People's Republic of China. However, the very foundations of the totalitarian regime – the ideology of Marxism–Leninism – and the organization of the Leninist party were completely foreign to the Chinese. For these foreign exogenous factors to play such a fundamental role in changing China so enormously, there must have been deep endogenous reasons. In the current section and the next, I look at shared critical institutional elements of China and Russia. Thus the creation of totalitarianism in Russia and its transplantation to China are not coincidental.

The first modern totalitarian regime in the world, Bolshevism, emerged from the following three institutional genes: (1) the Christian Orthodox church, which had almost completely penetrated Russian society and controlled Russian spiritual life; (2) the Russian imperial institutions, which almost completely controlled secular society, making the constitutional reforms more difficult; and (3) political terrorist organizations or secret and violent elite organizations, which completely controlled their members through discipline and terror.²²

Both leaders of the Marxist movement and leading critics of Communism pointed out that Communism and violent Communist movements originate from Christianity,²³ and naturally the Christian church was essential for the creation of the first totalitarianism. For centuries nearly all Russians were members of the Russian Orthodox church. Russians' belief in and loyalty to

²² See Xu, "Institutional Genes upon Which Totalitarianism Is Born," in Xu, *Institutional Genes*.

²³ F. Engels (1895), "A Contribution to the History of Primitive Christianity," published online by the Socialist Labor Party of America (www.slp.org), February 2007, at www.scribd.com/document/48277975/A-Contribution-to-the-History-Of-Primitive-Christianity-Frederick-Engels; K. Kautsky, *Communism in Central Europe in the Time of the Reformation* (Nabu Press, 7 January 2010); L. von Mises, *Socialism* (New Haven, Yale University Press, 1981; first published 1951). Kautsky and Mises discussed the bloody violence of the first communist city-state in Münster (Germany) created by radical Anabaptists in 1534.

the Orthodox church were deep and passionate. Moreover, the church was a pillar that supported the empire. Since Peter the Great, the czars had intertwined the religious order with the government to increase their power and to implement political reform, to use the church to rule the empire.

By borrowing some key elements from the church, the Bolsheviks transformed the revolutionary party into a political church, and Marxism–Leninism is the political religion of the church.²⁴ This political church incited and organized the masses to initiate and implement revolutionary actions. In addition to mobilizing the mass movement, the Bolshevik political church was essential to justify or legitimize the totalitarian regime.²⁵

The second institutional gene of Bolshevism was the Russian imperial institutions. The power of the czars was much greater than that of Western European absolutists. The nobility, entrepreneurs, and merchants in Russia had been very weak since the emergence of the Russian empire, compared with their counterparts in Western Europe. The traditional Russian “parliament,” the boyar Duma, which represented the nobility, was essentially a bureaucracy subordinate to the czar since Ivan IV. Even this was not allowed to last when Peter the Great abolished the boyar Duma completely.²⁶ The essential institutional elements of the czarist empire not only made the constitutional reforms difficult, but also prepared the institutional foundation for the forthcoming totalitarian regime.²⁷

The third institutional gene of Bolshevism consisted of the terrorist organizations associated with the populist movement.²⁸ The first significant such organization was the Decembrists, a violent secretive organization composed of radical young military officials who, in the early nineteenth century, attempted to establish constitutionalism by launching terrorist campaigns.

A leading populist terrorist organization, Land and Liberty, directly influenced the birth and organization of Bolshevism. This party later split into several movements, among them are a proto-Marxist organization led by Georgi

²⁴ C. Xu, “Christianity as an Institutional Origin of Totalitarianism,” in Xu, *Institutional Genes*. The similarities and differences among Christian denominations and their implications for totalitarianism are also discussed there.

²⁵ C. Xu, “The Creation of the First Full-Fledged Totalitarian Regime,” in Xu, *Institutional Genes*.

²⁶ J.K. Sowards, *Makers of the Western Tradition*, 5th ed. (New York, St. Martin’s Press, 1991), vol. 2, p. 29.

²⁷ Xu, “The Creation of the First Full-Fledged Totalitarian Regime.”

²⁸ L.H. Haimson, *The Russian Marxists & the Origins of Bolshevism* (Cambridge, MA, Harvard University Press, 1955).

Plekhanov and a purely terrorist organization called People's Will.²⁹ Plekhanov was the first self-claimed Russian Marxist and was the founder of the social-democratic movement in Russia, the predecessor of the Bolshevik movement. Lenin, the founder of Bolshevism, was deeply influenced both by Plekhanov and by his own elder brother, who was a local leader of People's Will responsible for a failed attempt to assassinate the czar and was later executed.

Deeply rooted in Russian society, these three institutional genes were particularly appealing to radical revolutionaries, radical intellectuals or intelligentsia, and the masses at the bottom of society. The shared features of the czarist imperial institutions with totalitarianism rendered the transformation of Russia into a totalitarian state acceptable or even preferable among many radical revolutionaries, proletarians, and soldiers.

Introducing Totalitarianism into China

Totalitarianism is foreign to the Chinese. When the CCP was established in 1921, the number of Chinese who knew constitutionalism was far more than those who knew Marxism or Bolshevism. The CCP was only a small branch of the Comintern, which was quite unknown nationally and internationally at that time. But why did Bolshevism grow so fast in China and eventually become the dominant force there? Our explanation is in the roles of institutional genes. Indeed, China shares two of the three essential institutional genes of Bolshevism – an imperial institution and secretive organizations. The Chinese empire had established a more centralized and more sophisticated institution than its Russian counterpart. Arguably, popular support for imperial institutions among Chinese, for many of whom it might have been subconscious as it was the only known order, was even stronger than in Russia. Moreover, China had a long history of secretive rebellious organizations. One example is the triads that partnered with Sun Yat-sen's revolution. These were powerful mafia-type organizations established in the eighteenth century.³⁰

But China would not have been able to create a native totalitarian regime on its own as a critical institutional gene was missing from Chinese soil: the Christian church,³¹ the ideology, and ideology-centered institution. Without

²⁹ According to its leader, Lev Tikhomirov, the party's ambition was to organize a *coup d'état* to seize power. D. Offord, *The Russian Revolutionary Movement in the 1880s* (Cambridge, Cambridge University Press, 1986), pp. 26, 47–9.

³⁰ C. Xu, "China: From Constitutional Reform to Bolshevism," in Xu, *Institutional Genes*.

³¹ Although Western missionaries had established hundreds of churches in many Chinese cities and towns beginning in the sixteenth century, the empire did not allow these churches to become influential in society.

the church and without many cultural connections with the West, not only did Chinese institutions and Chinese culture make it impossible to create a totalitarian ideology in China, but also no Chinese had ever even heard of Marxism until the early twentieth century. Marxism was only brought back to China with students who had been studying in Japan, and their knowledge of Marxism was extremely shallow.³² Thus the mission of the Comintern was pivotal for the creation of the Marxist totalitarian regime in China.³³

The Comintern was set up by Lenin in 1919 to wage a global Communist revolution, the success of which, according to Marxism–Leninism, was a necessary precondition for the survival of the Bolshevik Revolution. In 1920, Grigori Voitinsky, head of the Far Eastern Bureau of the Comintern, traveled to China to establish a Communist Party there. He contacted Li Dazhao, Chen Duxiu, and others, who later became the founders and first leaders of the CCP. Several months later, together they created the Comintern China Branch, the Chinese Communist Party. Then, in 1921, another Comintern representative, Maring (real name Henk Sneevliet) was sent to China directly by Lenin to chair the First Chinese Communist Party Congress.³⁴ The Constitution of the CCP (passed at the Second Chinese Communist Party Congress, in July 1922) declared that the CCP was a branch of the Comintern. The CCP's subordination to the Comintern remained until the dissolution of the Comintern in 1943.³⁵

The reorganization of the Guomindang (KMT) and the creation of a KMT–CCP coalition sponsored by the Comintern was a vital step to foster the newborn CCP. In 1923 Adolf Joffe, a representative of Lenin, signed the Sun–Joffe Manifesto.³⁶ Thereafter, the Comintern provided large-scale military, financial, and personnel aid as well as training and advisers to the KMT, and created the Huangpu Military Academy in Guangzhou and Sun Yat-sen University in Moscow (officially called Sun Yat-sen Communist University of the Toilers of China) to train KMT and CCP officials.

At the 1924 First National Congress of the KMT, Sun announced that the KMT would be reorganized along the lines of the Bolshevik Party and

³² Xu Liangying 许良英 and Wang Laidi 王来棣, *民主的历史* (History of Democracy) (Beijing, Law Press, 2015).

³³ T. Saich, *The Chinese Communist Party during the Era of the Comintern (1919–1943)* (n.l., CreateSpace Independent Publishing Platform, 2014).

³⁴ B. Lazitch with M.M. Drachkovitch (eds.), *Biographical Dictionary of the Comintern*, new, rvsd and exp. ed. (Stanford, CA, Hoover Institution Press, 1986), p. 436.

³⁵ Xu, "China: From Constitutional Reform to Bolshevism."

³⁶ W.L. Tung, *The Political Institutions of Modern China* (Dordrecht, Springer, 1968), p. 92.

China's revolution would "learn from Russia" (*yi e weishi* 以俄为师). But the long-run goal of the Comintern was to prepare the CCP to erode the power of the KMT in the near future.³⁷ Except for Sun Yat-sen, all the top KMT leaders, including Chiang Kai-shek, Liao Zhongkai, Chiang Ching-kuo, and so on, had trained in Russia or had spent lengthy visits in Russia. The Comintern's support for the KMT was maintained until 1927.

Under the leadership of the Comintern, in 1931 the CCP created the Chinese Soviet Republic, China's first totalitarian regime, with Mao Zedong elected as chairman, even though he was not yet a top CCP leader. To some extent, the Chinese Soviet Republic at that time was similar to the Ukrainian Soviet Socialist Republic that loosely became part of the USSR. In retrospect, the Chinese Soviet Republic was a prototype for the future PRC, with a constitution that was a simplified version of the 1924 Soviet Constitution.

In 1938, under the command of Comintern head Georgi Dimitrov, Mao Zedong became the top leader of the CCP at the Sixth Plenary Session of the Sixth Central Committee of the CCP, a position he would hold until his death in 1976.³⁸ Because Dimitrov's instructions were communicated orally to Wang Jiaxiang, the CCP envoy to the Comintern, without any witnesses, the credibility of this order is still contested by some Russian historians.

Inspired by Stalin and the Comintern, Mao consolidated his power by launching the Yan'an Rectification Campaign in 1942. From ideology to strategy, the Yan'an Rectification Campaign was essentially a Chinese version of the Stalinist Great Purge. The key reading of the Yan'an Rectification Campaign was Stalin's *History of the Communist Party of the Soviet Union (Bolsheviks): Short Course*; the primary strategy of the Yan'an Rectification Campaign was a Stalinist purge backed by terror, and the goal was to establish the absolute power of the leader by building a personality cult.

Following Stalin's steps after the 1936 Great Purge, "Mao Zedong Thought," coined by Wang Jiaxiang in 1943, was forcefully promoted in the CCP by Liu Shaoqi (a secretary of the Central Secretariat and vice chairman of the People's Revolutionary Military Council at that time, later the president of China, purged to death during the Cultural Revolution),³⁹ and

³⁷ Xu, "China: From Constitutional Reform to Bolshevism."

³⁸ He Fang, *党史笔记: 从遵义会议到延安整风* (Notes on the History of the CCP: From the Zunyi Meeting to the Yan'an Rectification Movement) (Hong Kong, Liwen chubanshe, 2005); Yang Kuisong, *毛泽东与莫斯科的恩恩怨怨* (Mao Zedong's Resentment of Moscow), 3rd ed. (Nanchang, Jiangxi renmin chubanshe, 2005).

³⁹ H. Gao, *1930–1945 How the Red Sun Rose: The Origins and Development of the Yan'an Rectification Movement* (Hong Kong, Chinese University Press, 2018).

became the core ideology of the CCP and entered the CCP Constitution at the Seventh CCP National Congress in 1945. Although the Yan'an Rectification Campaign was a duplication of Stalin's Great Purge and Wang's invention was an imitation of Kaganovich's creation of Stalinism in the mid-1930s, the ideology of the great leader created in the process took on a life and a soul of its own such that since then the CCP has become a fully fledged Bolshevik institution in its own right. Thenceforth, the Bolshevik institutional genes became part of China's institutional genes, dominating China's institutional evolution until today.

If Bolshevism, the first fully fledged totalitarian regime in human history, was so repressive, how was it possible for the Bolshevik Revolution to be incentive-compatible with its wide-ranging participants, from social elites to the vast masses of society?

Part of the answer is the Communist ideology, which has appealed to intellectual elites and the masses at the bottom of any highly unequal society. Yet, ironically, all totalitarian regimes are extremely unequal institutions. The other part of the answer is the conspiratory strategy common to secretive organizations. The Bolsheviks divided the grand revolutionary goal into stages, promising different goals at each stage. This strategy would make each stage incentive-compatible to the masses, and overall inconsistency between stages would be handled in other ways, often by violence. One example is Lenin's promise of a nationwide election to be held within three months immediately after the forced overthrow of the Russian Provisional Government, i.e. the October Revolution. He said the Bolsheviks would step down if they did not win a majority of the votes.⁴⁰ But after losing the election, the Bolsheviks declared that the election was invalid and arrested opposition-party leaders, thus triggering a multi-year civil war.

Learning from the Russian Bolsheviks, the CCP designed their ingenious strategy to change the incentive-incompatible grand revolution into a stage-wise incentive-compatible revolution by making different and often contradictory promises over time. At each stage, the CCP issued appealing promises to participants, similar to what Lenin did in 1917–1918. The CCP has systematically breached its promises. To deal with the contradiction between assurances made at various stages of the revolution and reality, they use censorship, brainwashing, and suppression.

⁴⁰ V.I. Lenin, "Reply to Questions from Peasants," November 18, 1918, in Lenin, *Collected Works*, vol. 26 (Moscow, Progress Publishers, 1971), pp. 300–1.

For example, total nationalization, which was the goal of the Bolshevik Revolution, would not be incentive-compatible for the Chinese peasant masses.⁴¹ To make the revolution incentive-compatible for the peasants, from the 1940s the CCP promised them ownership of private land and publicly announced that there would be no sovietization. However, after the CCP took and consolidated power, and penetrated every village and neighborhood and every corner of society, nationalization and collectivization began to be ruthlessly implemented. In the process, the social status of a handful of CCP village leaders was elevated. Most peasants hesitated to join the collectives, and after they did they later regretted it, but it was already too late for them to withdraw. Ultimately, almost all of them were forced to give up all their private assets. Only at that time did peasants find that to survive they had no choice but to join the collectives under the total control of the CCP.⁴²

Similarly, for the seizure of power to be incentive-compatible, the CCP also promised democracy, freedom, and constitutionalism to the national capitalists and intellectuals. Consequently, a large number of liberal intellectuals joined the CCP.⁴³ To win the hearts of enlightened Chinese, in 1946 the CCP worked closely with the KMT and other parties to draft the Constitution of the Republic of China. In the process, the CCP delegates made numerous sensible motions to implement constitutional principles, including proactive protection of human rights measures, strengthening of checks and balances, and so forth. And most of those were incorporated into the final version of the Constitution (which, interestingly, remains the Constitution in Taiwan to this day).⁴⁴

However, after taking power by military force in 1949, the CCP immediately withdrew its promises to implement constitutional principles in its provisional constitution – the Common Program of the Chinese People's Political Consultative Conference – promulgated in September 1949. The most important basic constitutional principles promised by the CCP, also written into the Republic of China Constitution that the CCP had supported,

⁴¹ A Bolshevik revolution is a proletarian mass movement. With a weak urban proletarian force, the CCP was forced to organize and lead peasant rebellions, and seized power by peasant force. In many respects, the CCP revolution shared similarities with the peasant rebellions that had been an integral part of the repeated cyclical dynastic revolutions of the Chinese empire.

⁴² Xu, "China: From Constitutional Reform to Bolshevism"; Xu, "A Full-Fledged Totalitarian Regime in China."

⁴³ Xu, "China: From Constitutional Reform to Bolshevism."

⁴⁴ Li Bingnan 李炳南, *政治协商会议与国共谈判* (The Political Consultative Conference and the KMT-CCP Negotiations) (Taipei, Yongye chuban gongsi, 1993).

such as a separation of powers, constitutional constraints on the power of the executive, a multiparty system, and so forth, all disappeared from the Common Program.⁴⁵ Article 1 of the Common Program declares that the People's Republic of China "carries out the people's democratic dictatorship." Article 15 states, "The organs of state power at all levels shall practice democratic centralism." It should be noted that the essence of the so-called "democratic centralism" is centralism alone and it is one of the basic Leninist principles established for the totalitarian Bolshevik party.

Creating a Fully Fledged Classic Totalitarian Regime

The Soviet Republic of China established in 1931 was a prototype totalitarian regime and the basis for later developments in the People's Republic of China. The creation of a fully fledged totalitarian regime began after the CCP took power. Stalinist institutions were fully transplanted into China. The first step, even before transplanting the Soviet model, was political centralization because previously all CCP-controlled territories had been governed as a kind of federation whereby each territory had its own banking system, legal system, and powerful leaders, such as Gao Gang in the northeast, Deng Xiaoping in the southwest, Xi Zhongxun in the northwest, and so forth. Beginning in 1950, all these powerful regional leaders were moved to the central government and "promoted" as national leaders.⁴⁶ Consequently, regional challenges and constraints on central authority were greatly weakened. Such centralization was well accepted by top CCP leaders as it was part of the institutional genes of the Chinese empire following the imperial pattern of enthroning the emperors.

The transplanting of the central planning institutions from the Soviet Union, including state ownership, bureaucratic resource allocation, and bureaucratic management, was one of the most critical elements in the creation of the Chinese totalitarian regime, perhaps second only to party building. A popular official slogan at that time was, "Today's Soviet Union is tomorrow's China."⁴⁷ In the early 1950s, the Soviets transferred to China 156 huge projects covering all sectors of manufacturing. Compared with the capital, equipment, technology, and management of modern state-owned

⁴⁵ Common Program of the Chinese People's Political Consultative Conference, at www.lawinfochina.com/display.aspx?id=abb13dba42840de7bdfb&lib=law (accessed April 28, 2020).

⁴⁶ Xu, "A Full-Fledged Totalitarian Regime in China." ⁴⁷ *People's Daily*, 15 October 1951.

firms associated with these projects, the far more important essence of these projects was the concrete implementation of central planning. Such large-scale and comprehensive aid gave China a chance to duplicate everything from the Soviet Union from the top to the bottom, from ideology to propaganda, from law to rule, from central planning to management, from technology to skills. The central planning apparatus was created as a duplicate of the Soviet system. In this system, almost all state assets, including the 156 Soviet-aided projects, were directly controlled by specialized central ministries, thus greatly strengthening the power of the central authority of the CCP. With this unprecedented Soviet aid and several campaigns which will be explained below, by the second half of the 1950s China had already established a fairly complete classic totalitarian regime.⁴⁸

The PRC Constitution was even drafted under repeated pressure from Stalin. Advised by Soviet experts, the CCP drafted and passed the first PRC Constitution in 1954.⁴⁹ Unlike the Soviet Constitution, the Chinese Constitution recognized the peasants' rights to private land and the property rights of the owners of private firms. Again, this was part of the CCP's strategy of maintaining its united front, composed primarily of peasants, capitalists, and intellectuals, in the CCP's seizure of power.

However, immediately after passage of the Constitution, the CCP publicly announced that the Constitution would be transitional. Less than one year after the passing of the PRC Constitution, collectivization and nationalization began to sweep across the party-state, and the Constitution was de facto abandoned.⁵⁰

Concerning the CCP's promises in the late 1940s that the PRC would be governed by a coalition of the CCP and democratic parties, the 1954 Constitution breached this promise by drastically decreasing the power of the democratic parties to participate in the governance of the PRC. The Chinese People's Political Consultative Conference degenerated from an acting congress to a rubber-stamp forum. Most national-level positions held by non-CCP members were abolished; all vice premiers were CCP members,

⁴⁸ R. MacFarquhar and J.K. Fairbank (eds.), *The People's Republic*, part 1, *Emergence of Revolutionary China, 1949–1965* (Cambridge, Cambridge University Press, 1987).

⁴⁹ Mao did not want to have any constitution in the PRC as it would be an unnecessary constraint on his dictatorial rule. But Stalin insisted that the CCP must implement a constitution for the PRC to be considered a "normal" nation. Zhang Ming 张鸣, "1954年宪法是怎么来的: 从'共同纲领'到1954年宪法" (Where the 1954 Constitution Came From: From the "Common Program" to the 1954 Constitution) 炎黄春秋 (History of the Chinese People), 10 (2014), 28–33, at www.yhcqw.com/30/9628.html (accessed April 30, 2020).

⁵⁰ Xu, "A Full-Fledged Totalitarian Regime in China."

and only a very few ministers were members of the democratic parties. Over time, full-scale sovietization and the CCP's totalitarian control over firms, NGOs, and universities created strong discontent among intellectuals and democrats. Their grievances began to mount and spread rapidly.⁵¹

Triggered by Nikita Khrushchev's secret speech at the Twentieth Party Congress of the Communist Party of the Soviet Union (CPSU) and the Hungarian Revolution, both in 1956, the CCP launched a campaign to "let a hundred flowers bloom and let a hundred schools contend." Some years later, Mao described this campaign as a plot to lead the snake from out of his hole. Responding to this CCP initiative and unaware of the true intention of the Party, most democratic leaders, who only a few years earlier had been allies of the CCP, openly demanded that the CCP fulfill its promise to create a coalition government. Hundreds of thousands of intellectuals openly criticized the constitutional and administrative shortcomings of the totalitarian party-state. But within only several months, all of those who had dared to speak out were purged as "rightists," i.e. political enemies. Many of them were sent to labor camps or prisons; the luckier ones were placed under de facto house arrest.⁵² In this "anti-rightist campaign," as it was officially called, 550,000 intellectuals, including more than 30,000 professors, were purged as rightists. These numbers should be placed in context. In 1956 China had a total of fewer than 240,000 engineers and there were even fewer intellectuals in business, finance, science, and the humanities.⁵³ Many of the so-called "rightists" were college students. Thereafter, constitutionalism was eliminated from Chinese college curricula and replaced by a so-called "politics course," which essentially was a course on Party doctrine.

The significance of the "anti-rightist campaign" is comparable to that of the "Yan'an Rectification." The Yan'an Rectification established a complete and independent totalitarian party, whereas after the anti-rightist campaign totalitarian rule was fully established over the entire country. Every person, regardless of whether or not she was a CCP member, had to strictly follow the Party line and the Party leader. The prohibition against dissident views cut off any channels of outside information and destroyed any possible checks and balances, thereby nurturing the conditions for future changes, such as the

⁵¹ R. MacFarquhar, *The Origins of the Cultural Revolution: The Coming of the Cataclysm 1961–1966* (New York, Columbia University Press, 1997).

⁵² Xu, "A Full-Fledged Totalitarian Regime in China."

⁵³ L. Orleans, *Professional Manpower and Education in Communist China* (Washington, DC: National Science Foundation, 1961), pp. 68–9, 74–5. See also the chapter by Perkins in this volume.

Great Leap Forward and the Cultural Revolution, and consequent catastrophes.

The widespread and punitively coercive suppression after the anti-rightist campaign established a foundation for a nationwide personality cult of the Party leader. Liu Shaoqi, the president of China, declared that Party members should become “tame tools (驯服工具)” or even “screws.”⁵⁴ Students growing up in this environment were ready to follow any command whatsoever issued by the great and powerful leader. They had no clue about the basic rights of citizens, constitutions, laws, checks and balances, or even their own rights and interests. When a replica of the Soviet totalitarian regime was eventually established in China, totalitarian institutional genes also became part of Chinese institutional genes. Nevertheless, China soon deviated from the Soviet model. The classic totalitarian regime was transformed into a regionally decentralized totalitarian (RDT) state.

The Creation of Regionally Decentralized Totalitarianism (RDT): The Great Leap Forward and the Cultural Revolution

As noted above, before 1949 the CCP-controlled territories (i.e. the liberated areas) were governed by a quasi-federal structure. These regions enjoyed substantial autonomous power, and local forces were an essential part of the CCP power base. Political centralization after 1950 was more or less anticipated and tolerated by most CCP leaders as this had occurred whenever a new dynasty was established in Chinese history. However, full-scale implementation of the Soviet model would have allowed the central ministries to take over all the resources and powers from the regional governments. Sovietization would thus have caused resentment among regional officials.⁵⁵ In 1956, Mao addressed the issue of the central–local relationship in his speech entitled “On the Ten Major Relationships” (*论十大关系*), revealing Mao’s rethink of the institutional details of a totalitarian regime. Soon his thoughts were implemented through two waves of campaigns, the GLF and the CR, and totalitarianism with Chinese characteristics was born.⁵⁶

⁵⁴ Liu Shaoqi, “同北京日报社编辑的谈话” (A Conversation with the Editor of the Beijing Daily) (June 8, 1958), at www.marxists.org/chinese/liushaoqi/1967/112.htm.

⁵⁵ C. Xu, “Regionally Decentralized Totalitarianism (RDT),” in Xu, *Institutional Genes*.

⁵⁶ Xu, “Regionally Decentralized Totalitarianism.”

In 1958, after the anti-rightist campaign, which had further established Mao as the supreme and unchallenged leader, Mao launched the GLF, thus drastically moving China in a direction away from a classic totalitarian regime. The first step in this campaign was to further centralize Mao's political power by weakening the fragile remaining checks and balances within the Party and by suppressing other top leaders who held views that were slightly different from those of Mao. At the Second Session of the Eighth Congress of the CCP Central Committee in May 1958, Mao sharply condemned Zhou Enlai and forced him, as well as several vice premiers who were responsible for central planning, such as Chen Yun, Li Xiannian, Bo Yibo, and others, to make self-criticisms. All the party officials who supported Mao and criticized Zhou became more powerful or were promoted, such as Liu Shaoqi, Lin Biao, and Ke Qingshi (Party secretary of Shanghai).⁵⁷

The series of institutional changes that began with the GLF and was completed during the CR (to be discussed below) created what I call a regionally decentralized totalitarian (RDT) regime, which featured the coexistence of, on the one hand, totally centralized control of society in ideology, politics, and even personal lives by the Party, and, on the other, decentralization in administration and management. The most important institutional change was the reintroduction of some of the institutional genes of the Chinese empire into the totalitarian institutional genes.⁵⁸ From an orthodox view of totalitarianism, the GLF and the RDT institutions created by the CCP were heretical to Marxism–Leninism. Thus the Soviet Union and other Eastern Bloc Communist countries criticized the GLF sharply and comprehensively.⁵⁹

Although Mao had almost absolute power in the CCP, shaking up the established totalitarianism had to be revolutionary as the latter had strong backing from the whole international Communist movement led by Moscow and the nested interests of some top CCP leaders. Indeed, an important part of the efforts was officially called the Cultural Revolution, and the basic principle that Mao emphasized was a continuous revolution. The mechanisms of both the GLF and the CR were fanatic mass movements, and they featured fierce competition among regional forces, including regional governments.

⁵⁷ Xin Ziling 辛子陵, *紅太陽的隕落: 千秋功罪毛澤東* (The Fall of the Red Sun: The Sins of Mao Zedong) (Hong Kong, Shu zuo fang, 2007).

⁵⁸ Xu, "Regionally Decentralized Totalitarianism."

⁵⁹ Xu, "Regionally Decentralized Totalitarianism."

During the GLF, local governments competed over grain output per unit of land, over steel output, over promises of output, over the creation of novel Communist institutions (experimentation), and so forth. An essential part of the institutional foundation for regional competition was created at the beginning of the GLF campaign, a drastic decentralization to regional governments, with full-scale state ownership (or control) of all production assets.⁶⁰ It is important to point out that, since both were created from the same RDT institution, at an abstract level, the mechanism of the regional competition in the GLF is similar to that during the post-Mao reforms. Of course, as the party lines were different there were some key differences between the GLF and the post-Mao reforms. The GLF aimed to eliminate all markets, thus the competition was only over quantitative targets. Without independent channels to check the veracity of the claims made by local governments, these quantitative targets could be easily manipulated. In comparison, the post-Mao reforms attempted to re-establish markets, and the target of the competition was GDP growth or comprehensive market activities that could be verified independently, e.g. through random-sampling market surveys.

New institutions were created by trial and error through regional experimentation in both the GLF and the CR, which will be discussed below. Regional officials were incentivized to compete over the creation of institutions that would accelerate the transition to communism. The most prominent institution that was created during this campaign was the People's Commune (PC). The PC emerged in Chayashan town, Suiping county, Henan province, on April 20, 1958. The local party officials called this new institution the "Chayashan Satellite People's Commune" to commemorate the 1871 Paris Commune and the first Soviet satellite, sputnik 1, which had been launched some six months earlier. After revision by Mao, the charter of the PC was published in the party's theoretical journal, *Red Flag*, to promote the implementation of communes throughout the country. In late 1958, all rural communities were required to organize such communes and all peasants were required to join them. Under the leadership of the CCP, all Chinese peasants had "joined" a commune by the end of that year.⁶¹

Mao regarded the PC as the social foundation of the regime,⁶² and he highlighted its features with two keywords, "large and public" (*yida ergong 一大二公*). "Large" refers to the scale of a commune, about 20,000 to 30,000 peasants in each commune, and the scope of a commune, which included

⁶⁰ Xu, "Regionally Decentralized Totalitarianism."

⁶¹ Xu, "Regionally Decentralized Totalitarianism."

⁶² At the peak of the GLF, many urban communities were also organized into PCs.

industry, agriculture, commerce, education, and the militia (*gong nong shang xue bing* 工农商学兵). “Public” refers to complete public ownership, i.e. elimination of all private property rights, and dominance by the CCP, which controlled all “publicly owned” assets in the nation. Every commune created tens or hundreds of commune–brigade industrial enterprises, the predecessors of the reform-era township and village enterprises (TVEs).⁶³ Thus each PC was a self-contained social unit.

A totalitarian society composed of tens of thousands of self-contained PCs made China distinctively different from the Soviet Union, which consisted of highly specialized large-scale enterprises. At the same time, the hard-core totalitarian institutions in the CCP were further consolidated, such as the cult of personality, the absolute power of the leader, the absolute control of the party, and so on. China’s transformation from classic totalitarianism to an RDT regime is not coincidental as it involved essential institutional genes inherited from imperial China. Mao made this point clear at the Central Committee’s Beidaihe meeting at the beginning of the 1958 GLF. He described himself as a combination of Karl Marx and Qin Shihuang. His so-called “Marx” referred to the imported totalitarianism, whereas his so-called “Qin Shihuang” referred to the imperial institutions.⁶⁴ A decade later during the CR Mao argued more explicitly that institutions of the Qin dynasty (*Qin youzai* 秦犹在) continued to exist in China to the present.⁶⁵

Replacing central planning by regional competition and forcing peasants to work in communes during the GLF consequently not only destroyed information about cost, quantity, and quality in all sectors of the Chinese economy, but also forced the peasants to hide food as government procurements squeezed their rations and their seeds, such that their survival was threatened. The chaos and disincentives led to the largest man-made famine in human history, with the death of 30 million.⁶⁶

Due to the great famine, the GLF was prematurely aborted and the newly created RDT institution was still primitive. The second wave of pushing towards the RDT, the CR, started in 1966 and lasted until 1976. On the one hand, the CR thrust the centralization of politics, ideology, and personnel

⁶³ Xu, “Regionally Decentralized Totalitarianism.”

⁶⁴ Xu, “Regionally Decentralized Totalitarianism.”

⁶⁵ Wang Nianyi 王年一, *大动乱的年代 (A Time of Great Upheaval)* (Beijing, Henan People’s Press, 1988), p. 470.

⁶⁶ This estimation is by Kung, in this volume. For narratives of the great famine, which occasioned 36 million deaths, see Yang Jisheng 杨继绳, *墓碑: 中国六十年代大饥荒纪实 (Tombstone: A Record of China’s Great Famine in the 1960s)* (Hong Kong, Tiandi tushu youxian gongsi, 2008).

matters even further, to an unprecedented level. All power was concentrated in the hands of the top leader, Mao, and his lieutenants. On the other hand, as an essential part of the CR, most central ministries were entirely closed down and almost all centrally controlled assets were delegated to the regional governments.⁶⁷ The extreme centralization of politics and personnel matters and the frenzied decentralization of administrative powers were highly complementary to each other. The decentralized administrative powers weakened the de facto powers of the central administrators because they could challenge the top leader in technical respects as they were endowed with indispensable resources. In contrast, the regional officials had no chance to influence the central leaders as their powers were thinly distributed. Thus the weaker the central ministries were, the more powerful the supreme leader became.

At the peak of the CR, more than 98 percent of central government-controlled assets were handed over to the regional governments. Except the People's Liberation Army (PLA) and those making nuclear weapons and ballistic missiles, almost all state-owned enterprises (SOEs) were controlled by the regional governments. The number of centrally controlled SOEs dropped from 10,533 in 1965 to 142 in 1970. Most central commissions and ministries, including the Central Planning Commission, the Central Economic Commission, the State Statistical Bureau, and so forth, were left with no functions. Many ministries, such as the ministries of Metallurgy, Coal, Commerce, and others, were permanently abandoned.⁶⁸ Nevertheless, because an RDT structure was already in place and self-contained regional economies had already been operational since the GLF, and the RDT regime was consolidated and enhanced, during the CR there was no great famine and the economy did not completely collapse. Associated with the administrative decentralization, complementary to the frenzied cult of Mao's personality, the major driving incentive mechanism of the CR was regional competition at every stage: the Red Guard movements; the Seizing-Power campaigns; the agricultural Learn from Dazhai campaign; the Five Small Industries (FSI) campaign, and so on.

Similar to the GLF, which created tens of thousands self-contained PCs as a foundation for a primitive RDT regime, the CR created thousands of self-contained counties as a foundation for a consolidated and industrialized RDT regime. To make all counties autarkic in terms of metallurgy,

⁶⁷ MacFarquhar, *The Origins of the Cultural Revolution*.

⁶⁸ Xu, "Regionally Decentralized Totalitarianism."

energy, machinery, construction, construction materials, and chemistry, a nationwide FSI campaign was launched in 1970, whereby each county was required to establish its own SOEs in five sectors, namely steelmaking, coal mining, machinery, cement, and chemical fertilizers. By the end of the CR, a substantial proportion of Chinese counties had become self-sufficient.⁶⁹ At the cost of 30 million lives in the GLF, and arguably even higher human costs in the CR,⁷⁰ the RDT was fully consolidated and codified by the state Constitution in 1975. As will be explained in the next section, ironically the RDT is the institutional foundation of the once successful post-Mao reform.

The Evolution of Regionally Decentralized Authoritarianism during the Post-Mao Reforms

The CR era is one of the darkest periods in human history. The devastation of the CR awakened the majority of CCP elites as the legitimacy of the CCP was deeply shaken, thus paving the way for change in the CCP after Mao's death.

In its earlier stages, the post-Mao reforms induced an unintentional institutional change towards RDA.⁷¹ The market replaced administrative planning in most areas of the economy; private property rights in production emerged and become the largest sector of the national economy; limited ideological pluralism and NGOs were somewhat allowed and accepted, although censorship still prevailed and tolerance was always contested, sometimes violently. The private and individualistic institutional elements grew fast, eroding RDT institutional genes. However, not surprisingly, limited liberalization and pluralism were not incentive-compatible with some powerful groups in the old regime, who regard the remaining RDT institutional genes as the foundation of their power and began to roll back the trend towards RDA from 2012. Sharing the same kind of institution with pre-1989 Soviet Eastern Europe, the CCP's negative reaction towards liberalism could be expected. The puzzling question is why China succeeded in creating

⁶⁹ Xu, "Regionally Decentralized Totalitarianism."

⁷⁰ According to a report by the Central Committee of the CCP published in the 1980s, more than a million people were killed and more than 10 million were injured or disabled, plus more than 113 million were politically persecuted during the CR. Cited in Yang Jisheng 杨继绳, "道路·理论·制度—我对文化大革命的思考" (The Course, Theory, and Institutions: My Reflection on the Cultural Revolution), *Jiyi 记忆* (Memory), November 30, 2013, 2–23.

⁷¹ C. Xu, "Institutional Evolution in the Post-Mao Era: Regionally Decentralized Authoritarianism (RDA)," in Xu, *Institutional Genes*.

a private sector in the early stages of reform. This question is addressed by examining the institutional genes inherited from the GLF and the CR.

Concerning both content and timing, the starting point of the post-Mao reforms was the ending point of the CR. The leaders of the *coup d'état* in 1976, which occurred several weeks after the death of Mao, arrested Mao's wife Jiang Qing and her lieutenants and removed those who insisted on continuing the CR from both the central leadership and the subnational levels. Consequently, a campaign was launched to transform the Party line from class struggle to economic development.⁷² Changes in the Party line were associated with personnel changes at all levels of the party-state hierarchy. Those who had seized power during the CR were replaced by party-state officials who had been purged at the same time. Importantly, many of those who were purged during the CR were de facto political dissidents during the Mao era as they vehemently disagreed with the Party line and were keen to introduce change. Such a systematic political change paved the way for the coming decades of reform.

With changed leadership, CCP central leaders forged a new consensus on the following major issues: (1) the monopolistic political power of the CCP must not be challenged, i.e. maintaining the essence of the RDT regime unchanged;⁷³ (2) the Party line has changed and the essence of socialism should be interpreted as economic development, which is the least controversial objective among the competing powerful factions and infighting ideologies; and (3) the Mao type of personalistic leadership should be replaced by a consensus-based collective leadership.⁷⁴ These principles were documented in the communiqué of the Third Plenum of the Eleventh CCP Central Committee in December 1978,⁷⁵ which became the official manifesto for political, ideological, and economic change, whereas it emphasized maintaining socialism, particularly insisting that state and collective ownership

⁷² Before Deng Xiaoping returned to power in late 1978, the major changes were led by Hu Yaobang, at the time general secretary of the CCP. J. Hu, "Hu Yaobang Selected the Breakpoint for the Reform," *Kaifang* 开放 (Kaifang magazine) 4 (2008), 66–8; Hu, "What Is 'Reform and Opening Up'? When Did It Occur?" *Zhengming* 争鸣 (Zhengming magazine) 4 (2009), pp. 66–70.

⁷³ The following argument by Deng depicts the goal of the CCP clearly: "to build socialism it is necessary to develop the productive forces . . . Not until . . . we have reached the level of the moderately developed countries shall we be able to say that we have really built socialism and to declare convincingly that it is superior to capitalism. We are advancing towards that goal." Deng Xiaoping, "To Uphold Socialism We Must Eliminate Poverty," April 26, 1987, in *Selected Works of Deng Xiaoping*, vol. 3, 1982–1992 (Beijing, Foreign Languages Press, 1994), p. 223.

⁷⁴ Xu, "Institutional Evolution in the Post-Mao Era."

⁷⁵ See <http://cpc.people.com.cn/GB/64162/64168/64563/65371/4441902.html>.

must not be touched. Consequently, “Four Modernizations” became the slogan of the Third Plenum, and “Reform and Opening Up” became the slogan after the 1987 Thirteenth Party Congress (when Zhao Ziyang was the CCP secretary general). Make no mistake, the change in the objective of the CCP from class struggle to economic development was always meant to be fully consistent with Communist ideology and to serve the survival of the CCP regime.⁷⁶

As China was still suffering from the consequences of the CR in the late 1970s, the post-Mao reforms began by following the Eastern Bloc nations due to shared similar institutions and objectives. However, the reforms in all Eastern Bloc nations ran into deep problems caused by a totalitarian bureaucracy. China was no exception.

A totalitarian regime controls all power and resources in society through the Leninist party in a top-down manner with a long chain of command. The entire society and the national economy are ruled by millions of party-state bureaucrats, who enjoy great benefits from their powers. Moreover, superiors have to rely on their subordinates for information to evaluate their subordinates, but subordinates with better local information have no incentive to report truthfully. Their vested interests are major obstacles to any reform that challenges existing institutions. Not only will they not take any initiative to attempt such reforms, but also they will find excuses not to implement reforms in their respective jurisdictions, regardless of the Party line or the dictates of their superiors. However, implementing any reforms at least has to rely on subordinates. In reality, very often the reforms have to rely further on their initiatives as they are better informed regarding local information (*à la* Hayek). Thus a solution to the incentive problem in the party-state bureaucratic hierarchy is the key to determining what reforms are

⁷⁶ The survival of the CCP regime is exactly the reason Deng and his lieutenants argued in cracking down on the Tiananmen demonstration. Moreover, ideologically, according to Marx, one respect in which socialism is better than capitalism is in its higher capacity to advance “productive forces.” Thus, in order to prove the validity of the Communist Party’s doctrine, it is necessary to deliver a higher growth rate than the capitalist economies. For this reason, most Communist leaders in the Soviet Union and Eastern Europe, even including Mao in the 1950s, attempted to grow their economies, although such attempts all eventually ended in failure. After the collapse of the Soviet Union and the Eastern Bloc, the top CCP leaders believed that continued economic development was crucial for the survival of the regime. For example, Tian Jiyun, a vice premier in the 1990s, attributed the collapse of the Soviet Union and the Eastern Bloc to their decades of failure to improve productivity. Du Mingming and Qingquan Xu, “田纪云谈 1992 年中央党校讲话” (Tian Jiyun on his 1992 Speech at the Central Party School), *Yanhuang Chunqiu* 3 (2009), at www.yhcqw.com/11/4679.html (accessed May 22, 2020).

feasible, who will implement the reforms, and how the reforms will be carried out.

Given the failure to find such a solution, intrinsic resistance to institutional reforms by party-state bureaucrats in the Eastern Bloc countries led to the failure of two decades of reform attempts and ultimately to the total collapse of their totalitarian regimes. In contrast, in the early stages of Chinese reform, the private sector emerged and grew fast, which drove China's growth thereafter. A key observation for understanding why China differs is that all the reforms related to property rights in China were not designed by the central Party or state. Instead, these were experiments at local levels, and initially they were not even permitted. Under anticapitalist laws and rules, local governments initiated the experiments and assumed high risks, as recognition, formal rules, and/or the legalization of reforms related to property rights almost always occurred after the fact was established, and risks were taken.⁷⁷ What motivated local party-state bureaucrats to take such risks?

The mechanism which drove many local party-state bureaucrats to engage with experiments relating to property rights in the first two decades of the reforms was tournament-like regional competitions over the GDP growth rate launched by the central authority. Promotions of officials in subnational governments were linked to their relative performance vis-à-vis the performance of officials in other regions. This provided high-powered incentives to local bureaucrats.⁷⁸

The central authority focuses on GDP growth as long as the Party is in power. But to fulfill this goal is not easy, as shown in the lessons from the Eastern Bloc. Thus regional governments were encouraged to find ways to develop faster than other regions. Under this mechanism, to succeed in the regional competition, many regional bureaucrats experimented with privatization, either partially or wholly, and indirectly or directly, even when private property rights were illegal. Only later were successful methods promoted or copied nationwide. The most prominent such examples include land reform (the "household responsibility system"), the special economic zones (SEZs) (protecting foreign private property rights for Chinese land), the TVEs and their later privatization,⁷⁹ the privatization of SOEs (starting in Zhucheng, Shandong province), and, most importantly, the

⁷⁷ Xu, "The Fundamental Institutions of China's Reform."

⁷⁸ Y. Qian and C. Xu, "Why China's Economic Reforms Differ: The M-Form Hierarchy and the Entry/Expansion of the Non-state Sector," *Economics of Transition* 1.2 (June 1993), 135–70.

⁷⁹ M.L. Weitzman and C. Xu, "Township-Village Enterprises as Vaguely Defined Cooperatives," *Journal of Comparative Economics* 18.2 (1994), 121–45.

rapid development of *de novo* private firms, among other things. The large-scale change in property rights was the foundation for the institutional change towards RDA. In 2004 the changed regime was codified in the PRC Constitution where private property rights are recognized.⁸⁰

However, regional tournament-like competition requires strong conditions that do not always provide the desirable high-powered incentives in the long run. That is why Chinese practices during the post-Mao reforms appear unusual in comparison with the Eastern Bloc. The following is the set of conditions for tournament-like regional competition to be an effective incentive mechanism for national policies:

- 1 There must be a top-down hierarchical bureaucracy that effectively controls the appointment, supervision, evaluation, and execution of all subordinate-level bureaucrats.
- 2 All, or the majority of, subordinate bureaucracies must consist of self-contained structures.
- 3 The government focuses on only one well-defined and measurable objective.
- 4 The government's disregard for all other objectives does not result in serious consequences.

Here, 1 and 2 are institutional conditions; whereas 3 and 4 concern the nature of competition targets. All totalitarian and authoritarian regimes, including those in China and in the Eastern Bloc nations, satisfy condition 1. However, only Chinese RDT and RDA satisfy condition 2; whereas classic totalitarian institutions in the Eastern Bloc violate this condition.⁸¹ These conditions are also helpful for understanding why regional competition was an essential part of the incentive mechanisms of the GLF and the CR after administrative powers and economic resources were systematically decentralized after 1958.

Indeed, at the beginning of the post-Mao era, when the party line focused on economic development, and China was so desperately poor that people were more willing to make sacrifices in other aspects in order to improve their income, conditions 3 and 4 are satisfied such that regional competition

⁸⁰ Xu, "The Fundamental Institutions of China's Reform."

⁸¹ With the implicit assumptions 1 and 4, Maskin, Qian, and Xu provide a theory and preliminary evidence showing that the Chinese M-form (condition 2) can provide high-powered incentives for economic growth (i.e. condition 3); whereas by violating condition 2, the Soviet U-form will not be able to provide high-powered incentives for economic growth. E. Maskin, Y. Qian, and C. Xu, "Incentives, Information, and Organizational Forms," *Review of Economic Studies* 67.2 (2000), 359–78.

targeting GDP growth was effective during the early stages of the Chinese reforms.⁸² Moreover, GDP as a comprehensive indicator of total market activities is well defined and well measured, and also it can be verified independently. Thus setting the GDP growth rate as the objective of local government competition categorically differentiates the consequence of the post-Mao reforms from that of regional competition during the GLF and the CR, although institutions were akin and strategies were also similar.

However, the role of any government regardless of the type of institution must always involve multiple dimensions. Associated with growth sustained over three decades and the authoritarian nature of governance, conditions 3 and 4 were violated substantially when China was no longer poor and when government-driven growth was associated with deep socioeconomic problems (e.g. land-grabbing local governments forced citizens in their jurisdictions to relocate by demolishing their homes, *qiang chaiqian* 强拆迁), such as social stability, inequality, degradation of the environment, corruption, and so forth. Even worse, tournament-type regional competition with multiple targets led to a race to the bottom for some targets. Thus regional competition as a solution for RDT/RDA bureaucrats, and associated growth performance, can only be transitional. The unprecedented fiscal stimuli of more than 1 trillion RMB spent during the global financial crisis pushed growth up temporarily, then it appeared to steadily slow down, with problems of overcapacity and overleveraging. Consequently, regional competition was abandoned.⁸³ But under the RDA institutions, there are no alternative effective solutions.⁸⁴

Facing increasing troubles in the economy, calls for reforming the state sector, for better protections of property rights and human rights, and for further reform in general were strong and popular. Given that the private sector employed more than 90 percent of the labor force in China, these reform calls are incentive-compatible with the majority of Chinese.

⁸² H. Li and L.-A. Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics* 89.9–10 (September 2005), 1743–62. After Maskin, Qian, and Xu, "Incentives, Information, and Organizational Forms," and Li and Zhou, "Political Turnover and Economic Performance," a sizable empirical literature in economics and political science provides systematic evidence that Chinese tournament-like regional competition is effective when the government's only objective is growth.

⁸³ C. Xu, "The Rise and Fall of the RDA," in Xu, *Institutional Genes*.

⁸⁴ There is no general optimum incentive solution for a bureaucracy when it has multiple objectives. B. Holmstrom and P. Milgrom, "Multi-task Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization* 7 (1991), 24–52.

However, events recently have gone in the opposite direction. This change is related to, but is more than, the change of the CCP leadership in 2012. These changes and policies against the popular demand and expectations need to be backed by strong coercive power.

This strong power consists of elements of the RDT institutional genes,⁸⁵ which have been eroded by privatization and by the transformation towards RDA. Indeed, from the beginning of the post-Mao reform, the ultimate purpose of the CCP is to sustain the totalitarian regime both politically and economically. This is manifested in Deng Xiaoping's Four Cardinal Principles of modernization announced in 1979 (upholding the socialist path, upholding the people's democratic dictatorship, upholding the leadership of the CCP, and upholding Mao Zedong Thought and Marxism–Leninism),⁸⁶ and is evident in his decision to crack down on the Tiananmen demonstrations in 1989 and to purge the reform-minded CCP secretary generals Hu Yaobang and Zhao Ziyang sequentially in 1986 and 1989.⁸⁷ The propaganda and ideological leading figures and agencies, state banks, large SOEs, and the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) have always been fighting against privatization and against amendments to the CCP Constitution in 2002 and the State Constitution in 2004. One argument which they have emphasized is that state assets are the foundation of Party rule.⁸⁸

Since 2013 all private firms and NGOs, including foreign firms and organizations, are required to set up CCP branches within the firm and organization. "Everything must be led by the Party" is being enforced everywhere. Discussions of constitutionalism and judicial independence are prohibited. "Upholding and strengthening the Party's absolute leadership in political and legal affairs" becomes the rule above the law.⁸⁹ Criticism of or even dissent from top leaders is punished. Government media must follow the party

⁸⁵ The most important elements include: (1) the party/state which controls the society, the court, the legislature, and the armed forces; (2) the state sector of the economy, including the financial sector, land, and SOEs; and (3) the subnational level party/state bureaucracy (the RDT structure).

⁸⁶ "邓小平：坚持四项基本原则" (Deng Xiaoping: Upholding the Four Fundamental Principles), at https://baike.baidu.com/reference/280112/6b4atU-GeleXMCJwbyQmCc4QXielLoTgnCZmNtYbbGoZ5sCwZZTYNwOhXn48UuE5NTm3yW7qXJ6Mw-q_hCSaPeHBr5tNSIGIMJlpPP7HGOY5-verWOhtuw.

⁸⁷ Zhao Ziyang, *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang* (New York, Simon & Schuster, 2009).

⁸⁸ Xu, "The Rise and Fall of the RDA."

⁸⁹ "中国共产党政法工作条例" (Regulations on the Political and Legal Work of the Communist Party of China), at www.gov.cn/zhengce/2019-01/18/content_5359135.htm.

(*dangmei xing dang* 党媒姓党). And the State Constitution has changed, allowing the state presidency to become for life. All bureaucrats, particularly subnational bureaucrats, are evaluated foremost on their loyalty to the top leader. Their morals have dropped drastically as their main goal now is not to make punishable mistakes.⁹⁰

Conclusion

Enlightened Chinese elites have launched reforms and revolutions aimed to establish a constitutional republic since the late nineteenth century, and these endeavors are still unfulfilled to this very day. On the contrary, China has implanted Bolshevism and further created an RDT regime with deep local roots. The narrative of this chapter has explained how the institutional genes inherited from the Chinese empire impeded constitutional reforms, and instead nurtured Bolshevism in China with deep roots, and further localized it. After totalitarianism prevailed in China, the institutional genes were transformed into new forms. The institutional genes of today's RDT regime appear to be mutations of their counterparts in the Chinese empire, like grafting institutional genes of the Chinese empire onto the genes of totalitarianism. The persistence of the institutional genes implies the difficulties of changing China's fundamental institutions. Indeed, from Deng Xiaoping's "upholding the leadership of the CCP" in his Four Cardinal Principles to Xi Jinping's re-emphasizing Mao's words that "the Party is the leader of everything,"⁹¹ from the cracking down in Tiananmen Square in 1989 to the suppression in Hong Kong in 2020, and from the continuous anti-peaceful-evolution efforts of the CCP from the 1950s to this day, the consistency in basic principles among the CCP leadership, and their tenacious resistance to constitutional reform, are evident.

Although institutional genes of the old regimes are persistent, institutional genes can mutate in diverging directions. Contrary to mainland China, sharing the same historical institutional genes, institutions in Taiwan have evolved into those of a full constitutional democracy. If in China the private sector, including NGOs and communal organizations (formal and informal), becomes the dominant sector in society and comes to enjoy full autonomy; if the judiciary becomes

⁹⁰ Xu, "The Rise and Fall of the RDA."

⁹¹ "The Party is the leader of everything, from the Party, the government, the army, the people, the school, the East, the West, the North, the South, and the Center" (党政军民学、东西南北中，党是领导一切的), said Mao in 1962, as Xi repeated in 2018.

independent in protecting property rights and human rights; if a sufficient share of the population is enlightened about their basic rights and takes collective action to protect their own rights and those of others, then new institutional genes will breed, and change. Under that situation, institutions in mainland China could eventually converge with what Taiwan has achieved.

Further Reading

- Brandt, L., D. Ma, and T. Rawski, "From Divergence to Convergence: Re-evaluating the History behind China's Economic Boom," *Journal of Economic Literature* 52.1 (March 2014), 45–123.
- Courtois, S., N. Werth, J.-L. Panne, A. Paczkowski, K. Bartosek, and J.-L. Margolin, *The Black Book of Communism: Crimes, Terror, Repression* (Cambridge, MA, Harvard University Press, 2015).
- Friedrich, C.J., and Z.K. Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge, MA, Harvard University Press, 1956).
- Gao, H., 1930–1945 *How the Red Sun Rose: The Origins and Development of the Yan'an Rectification Movement* (Hong Kong, Chinese University Press, 2018).
- Li, H., and L.-A. Zhou, "Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China," *Journal of Public Economics* 89.9–10 (September 2005), 1743–62.
- MacFarquhar, R., *The Origins of the Cultural Revolution: The Coming of the Cataclysm 1961–1966* (New York, Columbia University Press, 1997).
- MacFarquhar, R., and J.K. Fairbank (eds.), *The People's Republic, part 1, Emergence of Revolutionary China, 1949–1965* (Cambridge, Cambridge University Press, 1987).
- Maskin, E., Y. Qian, and C. Xu, "Incentives, Information, and Organizational Forms," *Review of Economic Studies* 67.2 (2000), 359–78.
- Qian, Y., and C. Xu, "Why China's Economic Reforms Differ: The M-Form Hierarchy and the Entry/Expansion of the Non-state Sector," *Economics of Transition* 1.2 (June 1993), 135–70.
- Wang Nianyi 王年一, *大动乱的年代 (A Time of Great Upheaval)* (Beijing, Henan People's Press, 1988).
- Xin Ziling 辛子陵, *紅太陽的隕落: 千秋功罪毛澤東 (The Fall of the Red Sun: The Sins of Mao Zedong)* (Hong Kong, Shu zuo fang, 2007).
- Xu C., "The Fundamental Institutions of China's Reform and Development," *Journal of Economic Literature* 49.4 (2011), 1076–1151.
- Xu, C., *Institutional Genes: A Comparative Analysis of the Origin of Chinese Institutions* (forthcoming from Cambridge University Press).
- Xu Liangying 许良英 and Wang Laidi 王来棣, *民主的历史 (History of Democracy)* (Beijing, Law Press, 2015).
- Yang Jisheng 杨继绳, *墓碑: 中国六十年代大饥荒纪实 (Tombstone: A Record of China's Great Famine in the 1960s)* (Hong Kong, Tiandi tushu youxian gongsi, 2008).
- Zhao, Ziyang, *Prisoner of the State: The Secret Journal of Premier Zhao Ziyang* (New York, Simon & Schuster, 2009).