

From Riches to Rags and... Back Again: Exploring the Resurgence of Wealth and Status Among the
Wealthy in Present-Day China post-Mao Zedong

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From Riches to Rags and... Back Again?

Picture this. It is 1940. You are a wealthy member of the elite class in China and have everything you could ever want. Together with your fellow landlords, you own more than 80% percent of China's farmland.¹ You make the poor peasants your servants, having them tend to your land or cook meals for your family. In addition, your children attend the most prestigious schools, ranging from the National Central University to Wuhan University and even Zhejiang University. The tight-knit community of elites ensures that the collective wealth and power will remain in the wealthy households for generations to come. Or will it? In a few years, the landscape will quickly change. A new leader, Mao Zedong of the Chinese Communist Party, rises to power in 1949.² His goal? To transform China into a leading world power. One of the main ways he attempted to reach this goal was through creating a communist society, stripping wealthy individuals of their property and other assets. In addition, he eradicated almost all established education systems, creating his own communist-led schools. Under the hands of this new leader, numerous elites were forced to work on farms and in factories alongside the poor peasants. Mao almost reached perfect income equality.³

Yet, observing China's economic situation today, it appears that descendants of these ex-elites have regained wealth and status in Chinese society. Meanwhile, the descendants of poor farmers have become impoverished again. Additionally, China has experienced a significant increase in wealth inequality since Mao Zedong's passing in 1976. This raises the question of how effective Mao's communism was in the long run. What enabled the descendants of ex-elites to regain their wealth and status in today's society?

This research paper explores three possible answers to these questions. The first two stem from an article published by *The Economist* in June 2022. In this article, economists provide two plausible explanations for the re-emergence of China's wealth gap. First, Mao's policies did not succeed in fully suppressing the wealthy elites; thus, descendants of these individuals already had a "head start" in regaining their wealth after Mao's passing. Others believe that communism effectively established near-perfect wealth equality. Seen this way, the reason for the wealth gap in today's society is that the wealthy had better connections and access to resources, enabling them to regain and rebuild their status more successfully.⁴ Finally, a third explanation—which is not mentioned in *The Economist*—revolves around Mao's successor, Deng Xiaoping. After Mao's passing, Deng implemented a series of reforms and policies reversing Mao's work. Ultimately, these measures assisted the descendants of ex-elites in rebuilding and regaining their ancestral status and wealth.

Case One: The Irony of Communist Wealth Equality in Mao Zedong's China

How did the wealthy elite seemingly regain their wealth and power in the late 1900s? One explanation is that communism never suppressed them to begin with. By definition, communism advocates for a society where all assets are publicly owned. Through the official establishment of

communism in China, Mao Zedong hoped to eradicate his people's social and income inequality. Before Mao came to power, an estimated 60 to 80% of land was owned by landlords.⁵ But after he implemented the Agrarian Reform Law of 1950, which stated that the "land ownership system of feudal exploitation by the landlord class shall be abolished and the system of peasant land ownership shall be introduced," this percentage fell nearly to zero.⁶ In an attempt to seize total control over the development of China's agricultural production and industrialization, Mao confiscated and then redistributed millions of rural landlords' assets among the general public. Within four years, poor farmers and peasants, who, at the time, represented a majority of the population but owned little to no land, were given access to more than half of the available farming land in China. By abolishing the landlord class's existence and providing peasants with land ownership, Mao nearly eliminated all of China's income inequality; the Gini coefficient dropped from 0.5 to 0.1, meaning almost no inequalities were present.⁷ In fact, while the generation before the reform law had an average 19.7% personal income gap between the wealthiest landlords and poorest peasants, the new law resulted in a -5.2% gap.⁸ The negative sign highlights that many peasants, in reality, even became more affluent than the former landlords. To further boost China's agricultural sector and overall development, Mao also shut down most secondary schools and universities to provide additional land and workers—the teachers and students—for farming.⁹ All of Mao's actions appear to be beneficial for the development of a country; more capital, land, and labor result in an increase in production and possibly innovation. Eliminating income inequality supposedly moves all citizens back to "square one," with no given citizen richer than any other person. Therefore, one would assume that all citizens would have a fair chance, in the later 1900s, at "making it big" and gaining wealth in this post-Mao system of supposed meritocracy.

But in reality, this was not the case. According to historians Hongbin Li and Lingsheng Meng, depriving China's citizens of education resulted in "a sizable reduction in labor supply, earnings, and wealth," contrary to Mao's original plan.¹⁰ After all, education paves the path for innovation, the modernization of ideas. It gives younger generations a foundational skill set to improve their country. Thus, while there may have been little to no income inequality during Mao's rule, China saw its economic growth drop significantly compared to other developing countries in the 1950s. In addition, the decision to implement communism to reach income equality failed. Take the successful Chinese businessman Guangyu Huang, for example. He grew up in the 1970s in Guangdong, China, where his grandfather was a wealthy landlord. However, Huang's grandfather was forced to give up his land to the state once Mao came to power. Thus, Huang and the rest of his family grew up poor, receiving no formal education nor inheritance when his grandfather passed away. Despite these unfortunate circumstances, Huang eventually won admission to the prestigious Renmin University of China. After graduation, he founded GOME Electronics in 1987, eventually amassing a net worth of over six million USD and becoming, at one point, China's wealthiest individual.¹¹ While this may seem like an

extreme case of luck and coincidence, Huang is just one of millions of wealthy landlord descendants who, in today's world, are wealthier than the average Chinese individual. Despite Mao's attempts to create a society void of income inequality, it appears that communism, in the long run, was unsuccessful in achieving this goal. After all, if communism truly made all Chinese citizens equal, how is it that the majority of pre-Mao wealthy landlords' descendants have regained their familial wealth and status? How are these descendants doing "better" in today's society than the descendants of poor peasants? A plausible explanation is that Mao's communism never entirely suppressed wealthy families as he intended. Or perhaps, Mao did not implement true communism in the first place. No matter how many landlords he murdered or how much land he took away from them, Mao was never fully able to reach income equality.

Case Two: The Rich People Unite!

Another explanation assumes that communism effectively established near-perfect wealth equality, and the wealth gap in today's society is due to the former wealthy elite having better access to resources and fostering more beneficial relationships, enabling them to regain and rebuild their status. Historians that share this viewpoint focus on the Cultural Revolution, an eleven-year sociopolitical movement that started in 1966.¹² After observing the Russian Revolution in the Soviet Union, Mao thought the Russians had "sold out" their Marxist ideals and became too focused on catching up with the West. He wanted China to avoid that fate by staying poor. In a letter from in the mid-1900s, Mao wrote that "a revolution is an insurrection, an act of violence by which one class overthrows another."¹³ Mao was severely afraid of the consequences of his people rebelling against the communist government, so he decided to rectify the Chinese Communist Party (CCP) to establish a close cohort of trusted members with strong communist beliefs. The CCP strived to attract a range of members from various socioeconomic classes. However, applying for a CCP leadership position was time-consuming and difficult. The process involved an application and evaluation, including rigorous tests of knowledge regarding China's history and the CCP policies.¹⁴ Ultimately, those with access to more resources, even if it was before the rise of Mao and the CCP, were better off passing these evaluations. Thus, despite being continuously suppressed by the CCP, the descendants of the once-elite individuals used these resources and diligently worked to study the relevant material to pass these tests. Passing CCP membership provided security and safety to its members and their families. In addition, it gave members access to unique, high-quality education. Benefits included access to prestigious schools such as the Central Party School of the Communist Party of China and the Lingdao Ganbu leadership training institutes.¹⁵ Overall, becoming a member of the CCP provided the descendants of past wealthy elites with social and educational advantages, helping them regain their familial wealth.

There was also the creation of Township and Village Enterprises (TVEs), known as “commune and brigade enterprises.” TVEs were rural enterprises that mainly focused on producing communes and bridges to support the production of crops.¹⁶ Mao and the Chinese government owned the TVEs, but members of local rural districts managed them. In numerous instances, those who had once been wealthy already had leadership experience and could manage money. Therefore, many of them became TVE managers, allowing them to support their families and provide high-quality education to their children.

In addition to the option of becoming a member of the powerful and respectable CCP or managing a TVE, many descendants of the past wealthy elite found other ways to gradually restore their family’s wealth. One such method was through maintaining social capital among pre-Mao wealthy elite families.¹⁷ Landowners’ properties were confiscated and redistributed after Mao’s rise to power and the Cultural Revolution. Despite owning no assets and having no perceived power, these ex-landlords formed tight-knit communities with each other.¹⁸ According to economist Alberto Alesina, members of these households were likely to “engage in assortative matching in marriage.”¹⁹ Therefore, it was common for both spouses of a given household to come from ex-elite families. This marriage tradition established a close community among ex-landlords’ families, providing members with “local kinship networks.” Thus, they had easier access to education and job opportunities. Additionally, those who were a part of these communities were, on average, less averse to inequality, more individualistic, and more likely to consider effort an essential ingredient of success.²⁰ Descendants of these ex-wealthy elites continued to instill hard work and highlight the importance of education to their children. When provided the opportunity to receive higher education and job opportunities under Deng, these children took advantage of these opportunities and all that came with them. This ideology was highly successful in helping descendants of ex-elite individuals regain their wealth. By 2010, individuals whose grandparents were considered the wealthy elite during the pre-Mao era, on average, earned a 16% higher income annually and received more than 10 to 11% of additional years of schooling than descendants of poor farmers.²¹ Thus, having a tight-knit, supportive community of wealthy individuals who passed down crucial past experiences to their children is another plausible explanation for their success in today’s world.

Case Three: Policies Are Un-Deng by Xiaoping

A third explanation for the descendants of ex-elite Chinese regaining their wealth focuses on the actions of Mao’s successor, Deng Xiaoping. Unlike Mao’s policies, Deng and his allies’ reforms ultimately led China away from Maoist ideologies and a planned economy.²² Specifically, Deng opened China up to foreign investments and technology. In addition, he introduced China’s large population, which happened to be nearing almost a billion citizens in the 1980s, and vast labor force to the global market, thus contributing to China becoming one of the world’s largest economies by nominal GDP

in 2010.²³ Ultimately, he transformed China into one of the fastest-growing economies in the world.

Deng became China's leader in 1978 and quickly denounced Mao's policies and reforms.²⁴ But even before then, despite being a lower-ranked government official, he and his allies were passionate public critics of Mao and the CCP. Deng was one of the primary drafters of China's Third Five-Year Plan. In draft form and unlike Mao's policies regarding land collectivization, the Third Five-Year Plan highlighted the importance of consumers and developing industrialized coastal cities.²⁵

Eventually, when Mao passed away and Deng came to power, Deng renounced the Cultural Revolution. In 1977, he launched "Beijing Spring," which enabled members of Chinese society to openly criticize Mao and his ideologies. Deng had observed China "failing" in Mao's economy. According to sociologist Andrew G. Walder, "industrial depression, [...] rural famine, [...] violent destruction, and stagnation" peaked during Mao's rule.²⁶ By encouraging citizens to denounce Mao's policies, Deng learned what actions he should take to make the Chinese people content. However, there was a twist. The ones most comfortable speaking up were the ex-landlords, who had been used to being at the top of the social pyramid and getting what they wanted before Mao and the Cultural Revolution. They demanded a national reform.

To start, Deng restored the National College Entrance Examination, also known as Gao Kao Kaoshi, which had been canceled for the past eleven years.²⁷ Known as the "hardest exam in China," the re-emergence of the Gao Kao Kaoshi segregated the once wealthy landlords and poor farmers. Most descendants of the ex-elite grew up learning the importance of hard work and education from their parents and grandparents. After all, this was how the parents and grandparents became wealthy in the first place. Meanwhile, most children of poor farmers received no parental guidance regarding schooling. In fact, many farmers assumed their children would follow in their footsteps and focused on teaching them the skills of sowing and weeding rather than math and language.

Additionally, Deng encouraged the production of raw materials such as iron and steel.²⁸ He incentivized industrial workers, specifically those who were "younger, revolutionary-spirited, more educated, and [...] technically trained," according to historian Chunjuan Nancy Wei.²⁹ These words perfectly fit the description of the ex-landlords' grandchildren, who were feisty and headstrong, hoping to earn back the money Mao had taken from their grandparents. They leveraged their family backgrounds, connections, and resources to engage in business activities and reach high-level management positions.

Deng's 1978 reforms granted greater autonomy to enterprise managers, most of whom were ex-landlords or their descendants. Now, they could set their own production goals and sell products in a private market at prices they chose. Deng also allowed them to grant bonuses to efficient workers and fire the unproductive ones. Most importantly, those in management positions could retain a portion of the company's profit for future investment.³⁰ Enterprise managers now had an incentive to innovate and expand their businesses. Also, allowing managers, most of whom were of the ex-landlord class, to

keep a portion of their earnings enabled them to invest more in their children's futures, providing their children with a better chance at prosperity and wealth.

Ultimately, Deng's policies led to the re-emergence of the class of wealthy individuals. By reviving the National Education System, Deng provided descendants of ex-landlords with the tools to become successful business people. By enabling greater autonomy among enterprise managers, Deng allowed ex-landlord families to invest in their children's future success.

The Complexity Behind the Shaping of China's Contemporary Wealth Gap

In present-day China, how did descendants of ex-landlords regain their familial wealth, and why do the descendants of the once-poor farmers still live in poverty today? Some believe that Mao's policies did not successfully suppress the wealthy elites, giving them an advantage in regaining their wealth after Mao's passing. Others suspect that, while communism effectively brought about near-perfect wealth equality, the formerly rich elite still had better access to educational resources and job opportunities than the poor farmers. This allowed them to rebuild their status and wealth more quickly and successfully post-Mao. Finally, a third viewpoint focuses on Mao's successor, Deng Xiaoping: Deng's choice to revoke many of Mao's policies and add opposing ones through a series of reforms and openings led China away from perfect wealth equality and resulted in the re-emergence of the wealth gap.

Which of these three explanations provides the most accurate conclusion? It may not be just one of these theories; instead, it is a combination of them. Maybe Deng's policies provided ex-landlords' families with the mobility and freedom to rebuild their wealth, and their previous experiences and skills helped them accelerate the process of reaching that goal. Alternatively, it is possible that Mao's policies were not entirely effective. This explanation, along with the wealthy elite having high levels of education and management experience, enabled them to financially differentiate themselves from the poorer members of society. The answer is not entirely clear. Further research will continue to help us assess the mystery behind China's re-emerging wealth gap.

Notes

¹ Ximena Bustillo and Connie Hanzhang Jin, "China Owns 380,000 Acres of Land in the U.S.," *NPR News*, June 26, 2023.

² Stuart Reynolds Schram, "Mao and the Chinese Communist Party," in *Britannica*.

³ “The Grandchildren of China’s Pre-revolutionary Elite Are Unusually Rich,” *The Economist*, June 9, 2022.

⁴ Ibid.

⁵ “Chinese Land Reform Overview,” in *Chinese History for Teachers*.

⁶ *Agrarian Reform Law of 1950* (China, 1950), 1.

⁷ “The Grandchildren of China’s Pre-revolutionary Elite Are Unusually Rich.”

⁸ Ibid.

⁹ Hongbin Li and Lingsheng Meng, *The Scarring Effects of College Education Deprivation During China’s Cultural Revolution* (University of Chicago Press, 2022), 981.

¹⁰ Ibid., Abstract.

¹¹ Alberto Alesina, Marlon Seror, David Yang, Yang You, and Weihong Zeng, *Persistence Despite Revolutions* (University of Chicago Press, 2022), 1.

¹² Kenneth Guy Lieberthal, “Cultural Revolution,” in *Britannica* (April 8, 2024).

¹³ Mao Zedong, “Report on an Investigation of the Peasant Movement in Hunan” (1927).

¹⁴ R.W. McMorrow, “Membership in the Communist Party of China: Who Is Being Admitted and How?,” *JSTOR Daily*, December 9, 2015.

¹⁵ David Shambaugh, *Training China’s Political Elite: The Party School System* (Cambridge University Press, 2008), 9.

¹⁶ Sai-leung Ng, *Township and Village Enterprises and Rural Environment in China* (Chinese University of Hong Kong Press, 2000), 531.

¹⁷ Alesina, Seror, Yang, You, and Zeng, *Persistence Despite Revolutions*, Abstract.

¹⁸ Ibid., 4.

¹⁹ Ibid.

²⁰ Ibid.

²¹ *Riches to Rags and Back Again: The Impact of China's Revolutions* (National Bureau of Economic Research, 2020).

²² “Deng Xiaoping,” in *Britannica* (March 9, 2024).

²³ David Barboza, “China Passes Japan as Second-Largest Economy,” *The New York Times*, August 15, 2010.

²⁴ “Deng Xiaoping.”

²⁵ Shigeo Kobayashi, Jia Baobo, and Junya Sano, *The “Three Reforms” in China: Progress and Outlook* (Sakura Institute of Research, 1999).

²⁶ Andrew G. Walder, *China Under Mao: A Revolution Derailed* (Harvard University Press, 2015).

²⁷ Wang Yiwei, “40 Years of ‘Gaokao’ After Mao,” *Sixth Tone*, June 7, 2017.

²⁸ Minqi Li, *Socialism, Capitalism, and Class Struggle: The Political Economy of Modern China* (Economic & Political Weekly, 2008), 13.

²⁹ Chunjuan Nancy Wei, *From Mao to Deng to Xi* (Paragon House, 2019), 42.

³⁰ Zuli Hu, Mohsin S. Khan, *Why Is China Growing So Fast?* (International Monetary Fund, 1997).

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