

# Information Distortion in Hierarchical Organizations: A Study of China's Great Famine in 1959-1961

Ziying Fan, Huazhong University of Science & Technology

Wei Xiong, Princeton University and NBER

Li-An Zhou, Peking University

## Abstract

This study uses China's Great Famine in 1959-1961 as a laboratory to study information distortion in hierarchical organizations. Shortly after Mao initiated the Great Leap Forward in 1958, which was aimed at rapidly industrializing the country, China experienced a severe famine across the country in 1959-1961 with an estimated death toll of at least 16 million. While the literature has attributed the famine to sharp declines in grain output caused by reduced peasant incentives and excessive grain procurement, we provide evidence to further connect these failures to information distortion inside the government system. During this period, China had a central planning system with the central government in Beijing relying on information reported by local officials to make decisions related to all aspects of the economy, from allocation of labor between agriculture and industry and procurement of grain to provision of famine relief.

Specifically, we document the following findings. First, local officials competed in massive inflation of local grain yield as an effort to cater to Mao's wishful thinking about the Great Leap Forward. Second, as a result of the yield inflation, the central government failed to realize the widespread famine and organize systematic famine relief until two years after the famine had initially started. Third, during the first two years, the central government transferred a substantial quantity of grain out of the provinces that experienced most severe famine, while local officials in these provinces redistributed more grain back to peasants using locally controlled grain stock. By revealed "knowledge", the last finding illustrates the information gap between the central government and local officials at the peak of the famine. Overall, our analysis highlights the severe consequences of information distortion induced by subordinates' incentives to cater to their superior's wishful thinking.