

Chinese Economy

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Questions

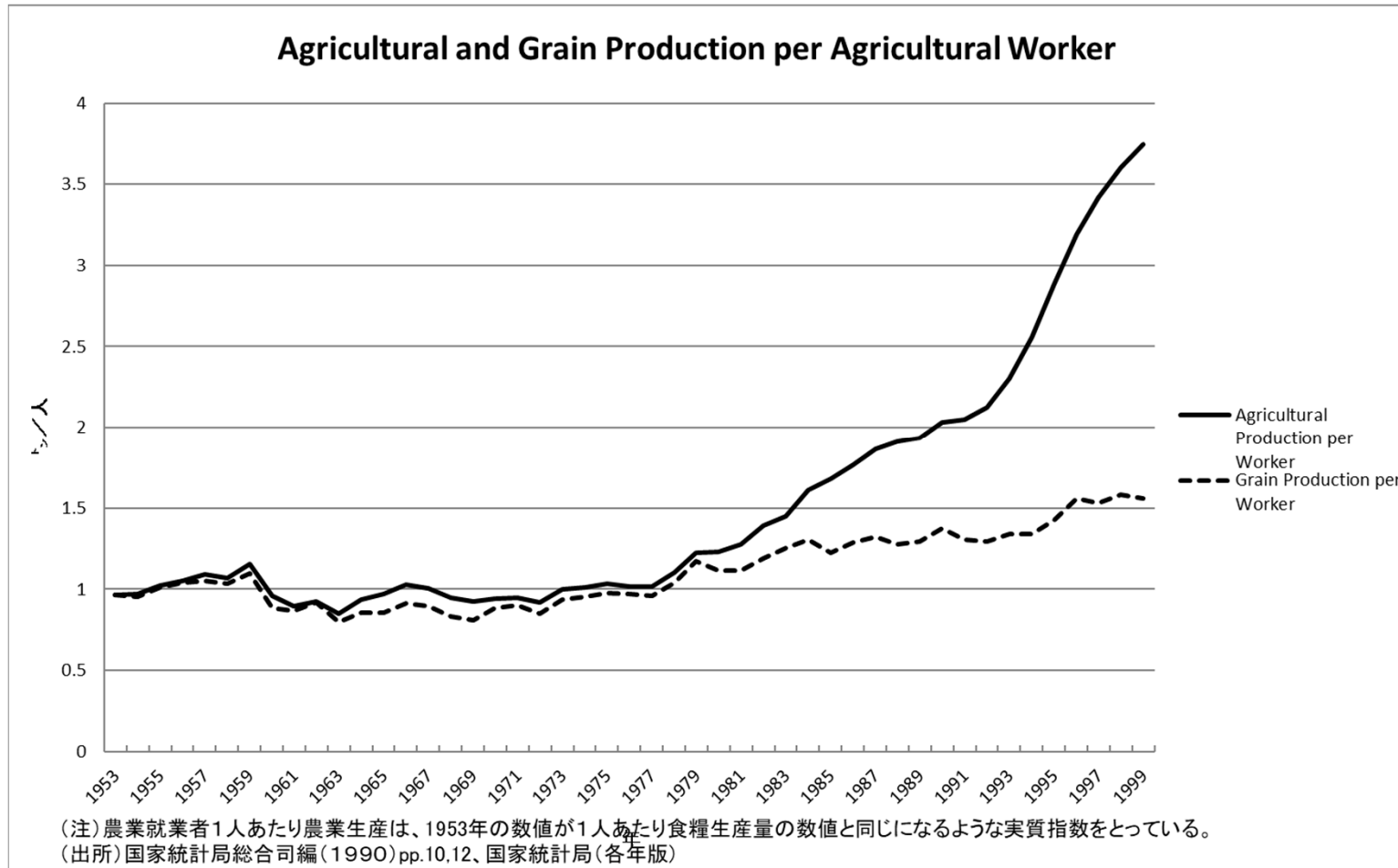
- Has planned economy even been conducted in some important realms in capitalist countries?--later
- What information should be gathered so that a planned economy might work?
- Mr. Marukawa, why did you want to go to China in the 1950s?
- How did the government balance demand and supply when there were over-reporting?
- Is it inevitable for planned economy to have drawbacks like the “Great Leap Forward (大跃进)”?
- What alternative would there be other than planned economy to industrialize China?
- Was the “land reform” a wrong decision?
- Why wasn't the wage level raised for many years during the 1960s and 1970s?
- Why was the machinery industry named as “1st”, nuclear weapons named as “2nd”, etc.?
- Jack Ma said, with new technology and big data, planned economy would become more widespread within three decades, do you agree?
- Salto mortale

Transition to Market Economy

Transition to Market Economy

- When and why did the transition to market economy begin in China?
- Comprehensive reform VS partial reform
- The success and limitation of partial reform

Why did the transition to market economy begin?



Grain production per worker was 963kg in 1953 and 960kg in 1977.

- With no improvement in agricultural productivity, industrialization can not proceed without importing food. The “Ricardian trap”
- “The Great Leap Forward” was an attempt to proceed with industrialization without the improvement in agricultural productivity, which led to a famine that killed 30 million people.
- To overcome the crisis of “the Great Leap Forward”, peasants were allowed to have a small plot of their own, sell their products at the free market, and engage in side business in 1960. In some districts, household responsibility system was introduced. However, the latter was banned in 1962.
- The household responsibility system revived in the 1980s, and in 1984 it was adopted by all rural area in China.
- The abolition of collective farming and the introduction of the household responsibility system led to a rapid increase in productivity.

In southern Sichuan Province. Small plots of land.



With the rise of agricultural productivity, people's diet improved. In 2000, calorie intake and that from animals rose to Japan's level.

Food Supply in China and Japan								
Year	China Calorie Intake(kcal/day)				Japan Calorie Intake(kcal/day)			
		Vegetable		Animal		Vegetable		Animal
		Grain				Grain		
1961	1439	96%	87%	4%	2525	90%	72%	10%
1970	1859	94%	86%	6%	2738	85%	56%	15%
1980	2161	92%	81%	8%	2799	81%	50%	19%
1990	2515	88%	73%	12%	2949	79%	46%	21%
2000	2812	81%	63%	19%	2900	79%	45%	21%
2010	3041	77%	53%	23%	2692	80%	45%	20%

Some other reasons of the rise of agricultural productivity

- The rise of agricultural productivity since the first half of the 1980s was not only the result of the introduction of household responsibility system but also was the result of the accumulation of investments until the 1970s.
- The irrigation area has increased by 2.1 times during 1953-1978.
- During the 1960s, high-yield varieties of rice and corn were introduced.
- In the 1980s, inputs of chemical fertilizers increased due to the increase in imports and domestic production.
- Irrigation, high-yield varieties, and chemical fertilizers are the three factors of the “green revolution.”

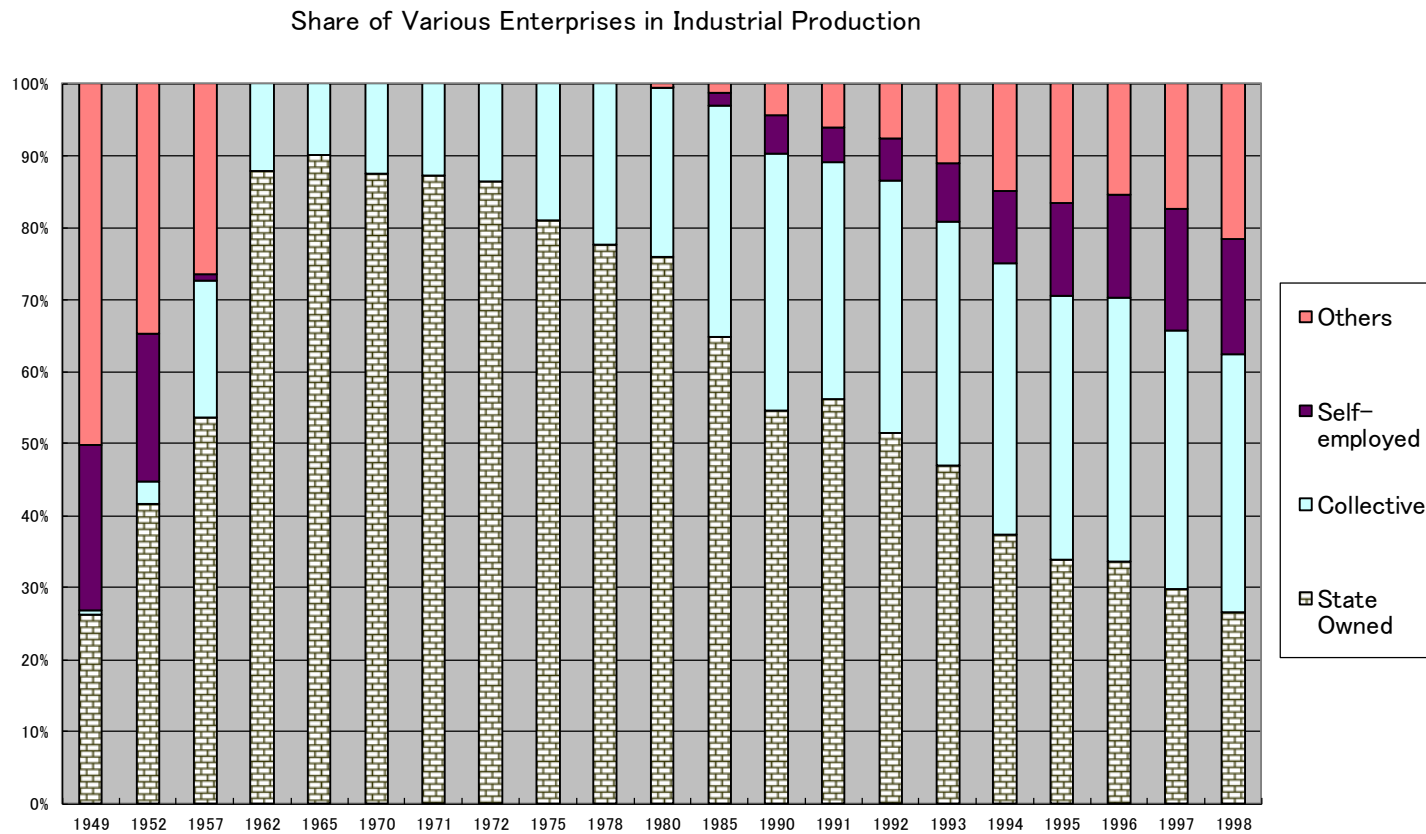
Comprehensive reform VS partial reform

- In early 1990s, there was an international debate on the method of transitioning from planned economy to market economy. Is a comprehensive reform necessary, or a partial and incremental reform more realistic?
- I think the success of China's transition was the result of its selection of a partial and incremental reform.
- China's GDP increased by 9.7% annually during 1979 and 2015. Russia adopted a radical and comprehensive reform strategy in early 1990s, but its GDP in 1998 dropped to only 55.8% of 1989. Life expectation in Russia was 69 years in 1998 but it decreased to 64 years in 1994.

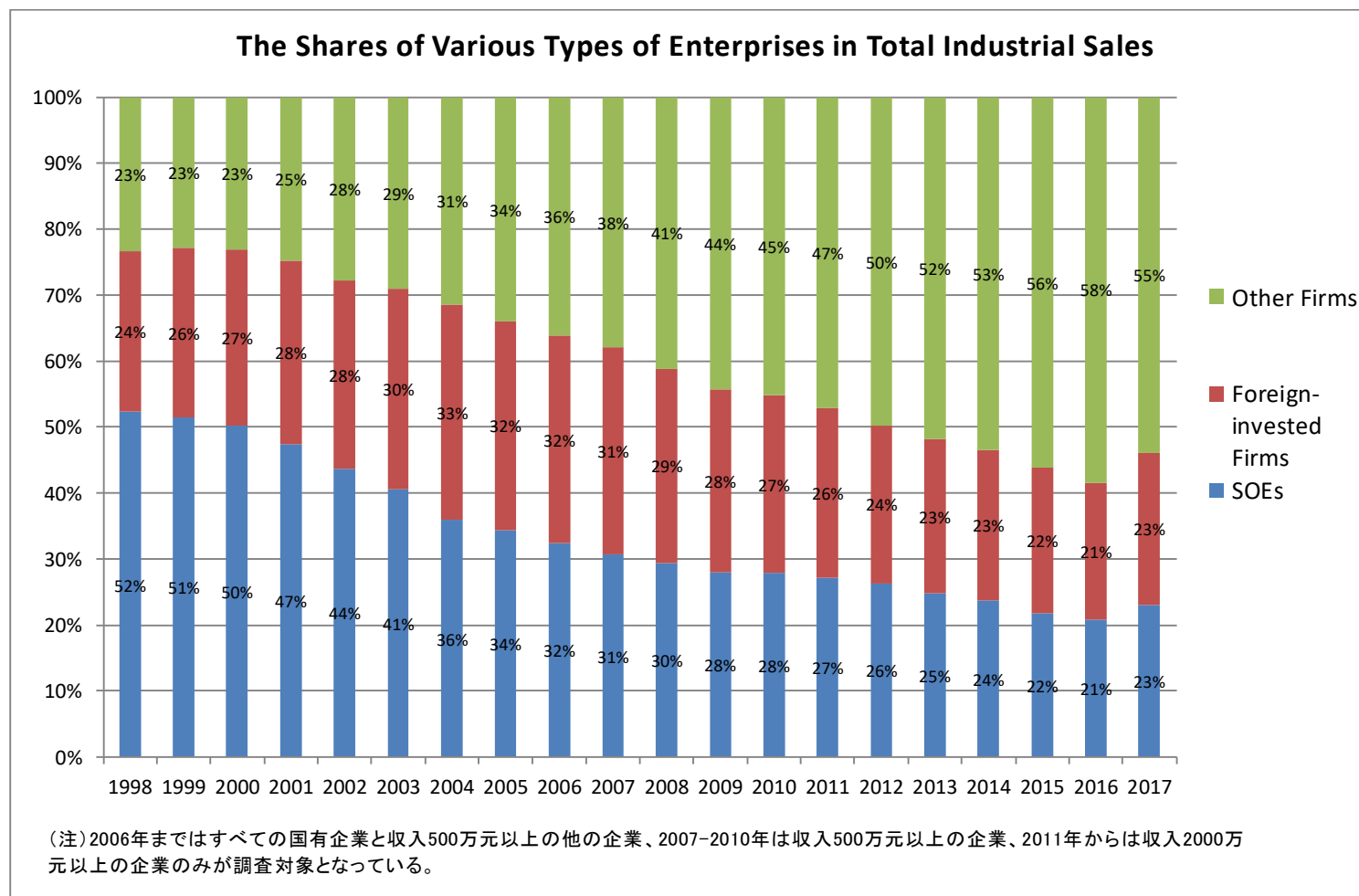
Partial and incremental nature of China's reform

- The transition from capitalism to planned economy was accomplished within four years, 1953-1957.
- The transition from planned economy to market economy started in 1978, and it is still continuing now.
- In the case of agriculture, although collective farming was abolished in 1984, it did not mean the return to pre-socialist agriculture. Land is still owned by “collectives”. Farmers are given “contractual right” of land, which is much weaker than ownership.
- More than one third of agricultural land is now transferred to the hands of large agricultural enterprises, which are called “family farms” or “cooperatives.”

The share of state-owned enterprises in industrial production has been declining continuously.



Continuously declined, but still 23% in 2017.



Economic Planning and Prices

- Five-year plans have been made every five years even during the reform period. Currently the 13th Five-Year Plan (2016~2020) is under way.
- Until the end of 1970s, prices of consumer goods were determined by the state, and consumers had to pay ration coupons (and money) to purchase them.
- Grain rationing coupons were abolished in 1993. So it took 14 years since the start of the reform in prices and distribution.

China's Reform Process

1. Reform proceeded without a blueprint of the system that would be created by the reform.

- Along with the development of reform, the final goal changed from “Planning supplemented by Market”, “Commodity economy with planning” to “Socialist market economy” in 1992.
- When the goal was set as “Socialist market economy” the prices of 93% of industrial consumer goods had already been liberalized.
- The goal of reform was quite flexible. It is not politically feasible to set “capitalism” or “market economy” as a goal of reform, when the Communist Party is in power.

2. Reform was partial

- Western economists that advised Russian and East European economic reform were opposed to partial reform, saying that it would give rise to “rent seeking”
- Indeed, rent seeking was rampant during the reform period in China.
- “Guandao 官倒” (profiteering by the officials) proliferated in the 1980s, and smuggling proliferated in the 1990s.
- Rent seeking did work as a signal to the enterprises. Guandao revealed the shortage of goods and smuggling exposed the domestic firms to international competition.

Partial reform

- While the planned economy “core” remained intact during the reform, market economy was first introduced at the periphery of the system. And the “periphery” grew much faster than the core, leading to the increase of market economy elements in the economy. This type of reform can be called “incrementalism.”
- However, “incrementalism” was not a strategy. When the reform started, the reformers did not expect that the periphery can grow so rapidly. Its growth was unexpected.
- China’s experience shows that a partial reform can lead to the change in the system as a whole.
- When the planned economy was introduced, a comprehensive approach was taken. Planned economy cannot allow the existence of “impurities.”
- On the contrary, the market system can allow impurities and yet the market economy can grow much stronger than the other elements.

What does China's experience tell us?

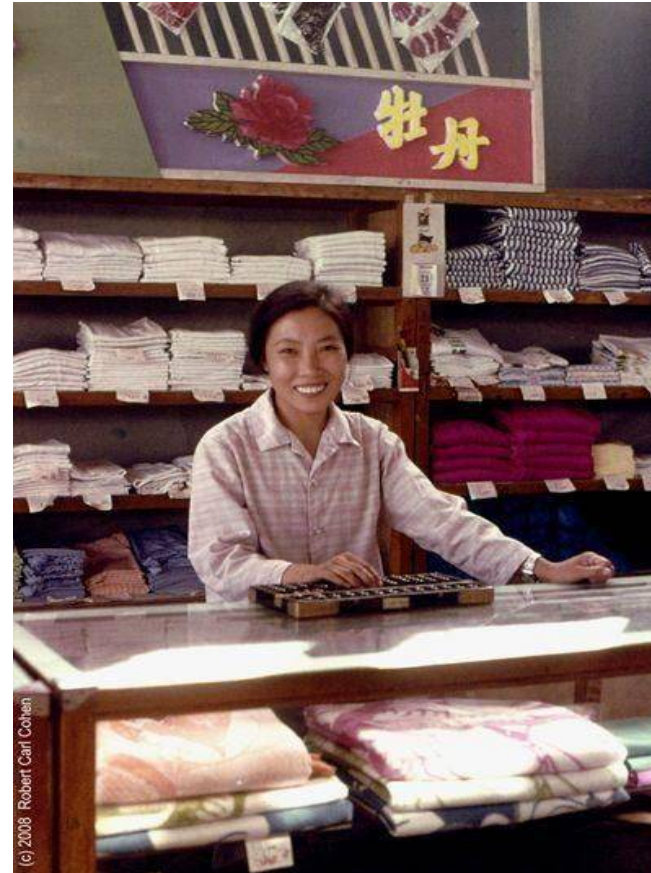
- Why, in the first place, planned economy is needed?
- Rationing and command economy appear even in capitalist countries during wartime.
- During the last period of World War II and a few years after the war, the Japanese government adopted a rationing system of food, coal, and steel.

Lessons

- When the demand for food continuously exceeds its supply, it is not advisable to balance supply and demand by the price mechanism.
- The price of food must be constrained at the highest level which the low-income population can afford to buy, and the gap between supply and demand must be balanced by rationing.
- The shortcoming of planned economy is that once this system is adopted the gap between supply and demand will not easily be narrowed. That is because the incentive to expand production of food will be harmed and the suppliers (producers and state-run distribution organization) start to enjoy monopoly.

Lessons

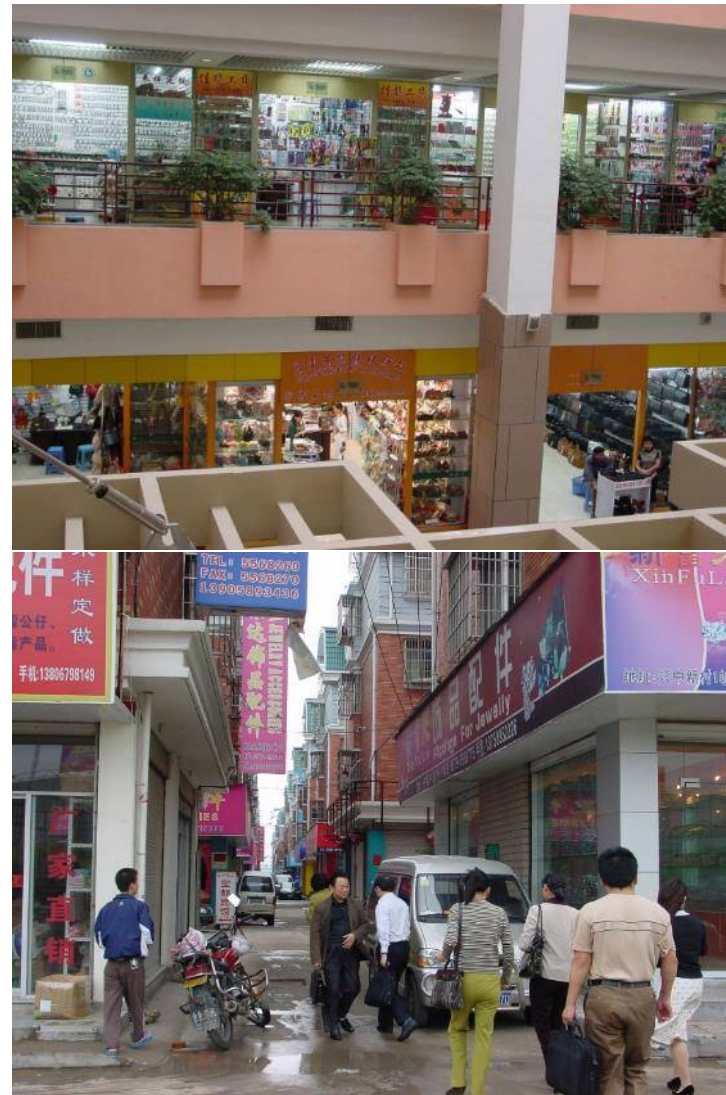
- In order to get rid of planned economy, the state must first begin by making efforts to expand supply, instead of liberalizing prices. Increase state investment, offering incentives to the producers, while maintaining low prices.
- When the gap between supply and demand is reversed, then a sellers' market will change into a buyers' market.
- The privileges enjoyed by the sellers are lost, and the sellers need to cultivate the routes to the market.



(c) 2008 Robert Carl Cohen

Lessons

- The market economy is not a abstract intersection of supply and demand.
- It consists of physical markets, networks (social capital) of people that work in these markets.



Lessons

- We should not expect that a market system will be created once the planned economy is destroyed.
- It takes a long time for a market economy to be created. First, it needs time to create enough production facilities to resolve the shortage of supply. Second, the market system cannot be created in a short period, because it is an accumulation of physical and social capital.

The Limitation of Partial Reform

- In the contemporary market system, not only goods but also other things such as land, labor forces, money, and intellectual property rights are traded. The market of these things cannot be created by the spontaneous movement of the society. The government must issue laws and create institutions that facilitate the trade of these things.
- Take the example of labor. It may be easy to liberalize its trade. But without proper regulations, a lot of anomalies harmful to the society may emerge, such as long working hours, fraud, enslavement, unemployment, and poverty.
- In 1993, the Chinese Communist Party made a detailed design of a socialist market economy and started the creation of various institutions, such as corporate law, foreign exchange market, social welfare system, etc.