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Foreword^{*}

Wang Dingding

From the year of 1994 onward, UIE has perseveringly committed itself to the project of *Economics in China*—a series of yearly publications, each of which comprises economic papers published that year that were regarded as rather representative at the time. The purpose is simple—it is intended to reflect the status quo of domestic research in the discipline of economics. Given the existence of diverse views on selection, however, the question of whether the actual papers selected are truly representative as hoped for is, not surprisingly, open to all sorts of disputes. Nonetheless, if there is anything that we feel more confident to say, it would be the fact that the papers invariably give expression to the immediate plight that people find themselves floundering to come to grips with, since the two worlds—academia and reality, are

* The text is a translated version of the original article for introduction of the book—*Economics in China 2002*, written by Prof. Wang Dingding, a member of Academic Committee of UIE. Due primarily to variation associated with individual interpretation as to what is perceived as truths, the article could at some point be mistranslated. Yet, it did not mean that way. Rather, if one thinks with symbolic interactionists, it may well be a natural outcome of “creative misinterpretation”, as the author of the article would like to put it.

inextricably intertwined with one another.

Insofar as the period of 2002 is concerned, the prevalent social anxiety that had taken much of the brain-resources of domestic economists as well as the bulk of leisure consumption of broader society involved was the inescapable dilemma of "efficiency versus fairness", constantly irritating policy-makers in almost all developing economies. At the heart of the efficiency issue were the researches in relation to economic growth, technological progress, and knowledge creation, whilst those vis-à-vis corruption, poverty, and social polarisation belied the issue of fairness. The fact that such a conflict between efficiency and fairness had at length found its way to the preoccupation of oft-bustling economists reflected some kind of social emergency that had seen the deterioration of social credibility, the withering in division of labour and the dwindling of scale in co-operation.

As such, the fifteen papers we have chosen would somehow constitute a miniature over the period of some frenetic surge often seen in the development of domestic socio-economic sphere. And because of it, indeed, we are more than willing to entitle the book after the year in its chronicle sequence as *Economics in China 2002*.

The first paper in the book, *Economics, Economists and Economic Education* of Xu Chenggang, is one of the few found in recent years, which provides us in a rather lucid manner with his argument on the bearing of economic traditions in general on the thinking of domestic Institutionalism. Such a bearing can be traced, in his view, to five basic theorems of "irrelevancy". They include Arrow - Debreu's general equilibrium model, Modigliani - Miller's separation theorem in the principles of portfolio diversification, Coase's theorem as to the irrele-

vance of a social regime to its efficiency when transaction cost is at zero, Lucas' hypothesis of neutrality of money, and Becker – Stigler's theory on judicial efficiency.

The essence of all economic traditions, Xu asserts, is therefore, no more than these five theorems that constitute the basic principles of economists serving as judgmental tools when tackling the relationships between various regimes and their respective efficiency. As with the notion of “irrelevancy”, a makeshift hypothesis has been instrumental in “purifying” a social regime in the minds of economists, which nudges out of the picture the correlation between a regime and its exhibited efficiency.

Whilst a reader's mind is still at the aggregate level, it should be helpful in reading the next paper, *Endogenous Economic Growth Theory: a Documentary Summary*, presented by Pan Shiyuan and Shi JinChuan. In my view, it is a quite comprehensive summary of almost all the theories on economic growth, both new and old from 1930 to 1990. In fact, it always occurred to me that the task of sorting out academic heritage should be seen as fundamental for all academics, not least because it is a primary source of intellectual creativity. Wouldn't it be true that, since the mid 1980s, all too many academic economists in China have become edgy about their brain-searching scripts, as they at length found themselves lost somewhere at the bottom of “repetitive trap”?

That said, we begin to move to one of the hot spots in domestic economic debate over the period of 2002—the true rate of growth in China's economy. The issue was first raised in details by Thomas Rawski, a senior specialist on China's economy of Pittsburgh University. In his

article entitled *Measuring China's Recent GDP Growth: Where do We Stand*, Rawski contends that the true growth rate of an economy, allowing for the effect of a given level of technological progress, can be measured by the speed of energy consumption. This is because energy is not only a necessary input, but also a crucial restricting factor in industrial growth. Pity, we cannot bring the article to the text of the book for the reasons stated above. Nonetheless, being background material for the convenience of readers, it is attached to the appendix section.

Yet, a couple of the articles perceived as in the Rawski's vein have been collected in the book. Fan Gang - Yao Zhizhong's *Estimation of Asset Factors Allocation and Its Roles in Income Distribution in China* is one of them. Their discussion, though not directly touch upon the idea of growth rate, actually goes further along the line laid out by Rawski. As the speed of growth, at least in the mind of the economic orthodox, is always linked up with the rate of capital accumulation, so correct measuring of it becomes crucial in the discussion of the true rate of growth.

In an effort to avoid conceptual confusion amongst different ownership regimes, Fan & Yao make use of the notion of "assets" as the proxy for the "capital". After all, say the writers, that is one of the nearest ways commonly applied amongst the developed market economies. The result of their estimation for domestic capital accumulation by the end of the year 2000 is approximately of 1/3 less for the public sector and 2/3 plus for the private sector.

Also, on the similar line of discussion is the article of Xie Ping and Luo Xiong, entitled *Taylor Rule and Its Empirical Test in China's Monetary Policy*. The article is in fact the result of their empirical test-

ing of so-called "Taylor Rule"—a single equation regression model that takes the real interest rate as the explained variable against three such explanatory variables as rate of spare capacity, long-term equilibrium rate of interest, and the deviation of actual rate of inflation from that of the expected. The result has lent support to the Rule that the writers claim has the practical significance for domestic monetary policy. In other words, Taylor Rule could possibly serve as guidance in the targeting of money supply, given one of the findings shows that, at the time when a real interest rate deviates from its long-term equilibrium rate, it is also the period over which monetary policy lags behind economic activities.

Next comes to an article *On China's Consumption Sag and Income Distribution: Theory and Data*, the joint effort by Zhu Guolin, Fan Jianyong and Yan Yan. As the title implies, the pattern of income distribution per se has been held accountable for the sagging of consumption in the domestic economy. Indeed, ever since the mid-1990s when the economy once again gathered its speed, the already-skewed pattern of income distribution amongst various social groups has kept tipping away. Meanwhile, as people at length come to terms with the change that has witnessed the bust of social security system, intensified commercialisation of labour resource, and detachment of landed peasants from their traditional habitats, so the society is ready to enter a highly precarious period of development.

Under the circumstances, even for those risk-neutral sorts, conventional wisdom has the prediction handy, which says that in the expected terms, higher risks must be in line with higher returns for just keeping them in the game. Little wonder, when it comes to the risk-a-

verse low-income earners whose sanity is still hanging helplessly with the immediate past of "low risk low return", the game of riskier prospects being met by the shrinking share of national income would not be accepted. As such, it becomes a corollary that, by dropping out of the market altogether, their balance sheets start to tip to the credit side of savings, resulting in the state of subdued consumption.

Li Shi - Knight's work, *Three Kinds of Poverty in Urban China*, has been seen, to a certain extent, as a continuing discussion on the relationship between income distribution and the state of subdued consumption. In their effort, the poor in urban China are sorted out in three such groups as the permanent, the frictional, and the poverty "by choice". The first group, namely the permanent poverty, is by and large in conformity with the concept applied internationally, while the frictional poverty refers to the group whose income temporarily drops below the poverty line due primarily to some structural shake-up. What really caught my attention is the third group, the poverty "by choice", meaning that the group's income is above the commonly defined poverty line whereas its level of consumption is "by choice" below it.

By making use of the data from 1999 survey, it has been found that as high as 51 % of the urban poor subscribe themselves to this third group, or that of poverty by choice. But what is the rationale behind their pattern of consumption? There are three possible reasons, speculated by the writers, as being responsible—bleak prospects for their expected earnings, aversion to risks deepened by increasingly uncertain future, and actual and/or expected debt burden at certain point in time as a result of some drastic change in life style. What is striking is the finding of as high the saving rate for the group as 42 %. Put another

way to say it, had the dwellers in the group viewed more sanguinely about their future income, as estimated by the writers, their average level of consumption would have been 40% higher.

Now, for a minute, let us turn to some stuff supposedly produced in the camp of natural sciences—*Food Demand and Nutritional Elasticity in Poor Areas of Rural China* presented by Zhang Juwei and Cai Fang. What prompted me to think that way is the rooted domestic convention that the food or nutritional structure of the sort is by and large a primary concern by Institute of Agricultural Sciences. Hopefully, it won't be deemed "too rude" to take a bit of the liberty into the territory of natural sciences, especially just for once in the lifetime.

Based on the sample, from 1997 survey carried out by State Bureau of Statistics, of 460 households of 43 villages in 6 poorest counties, the researchers found that the food consumption had at least taken up to 60% of the families' outlay all told. And this was also true even for those in the bracket of top 20%. The richer the villagers become, moreover, the higher prices for nutritional stuff the households are willing to pay. In terms of calorie intake, for example, the price paid by the poorest households is found to be at RMB 0.67 per kilocalorie, whilst it reaches at RMB 1.32 per kilocalorie for the well-off. Given the elasticity of demand for nutrition is quite low, measured at 0.14 comparing to that oft-seen as highly elastic for foods in general, it is possible, goes the conclusion, for some sort of policy-based intervention to improve nutrition in those least developed regions.

For those who still spare an eye on public affairs amid the frantic scramble in the authorised game of "Glorious Riches", one of the eye-catching spots in 2000 could be said as the widespread concern over

countryside, agriculture, and peasantry, commonly dubbed as “CAP”. Was the “CAP” once again on the top two years later? Better still, insofar as I am concerned, for it capped up “head-lines” in a much deeper and broader fashion in 2002.

One of the representing papers collected in the book is Zhang Shuguang-Zhao Nong’s work, entitled *Power Allocation and Manner Change in Decision-making—Rural Issues in China*. The article starts with recounting historical legacy of “collective land ownership and quasi-renting system”, then goes further to the fallout issue of income distribution and overload in the contemporary rural community, and winds up with the main theme of the paper—possible ways in the provision of public goods there. Indeed, whatever public choice people have is massively entangled with the hangover from bygone, the so-called “path-dependence”. As the writers emphatically point out, the choice in the provision of public goods in the rural community has been greatly influenced by the haunting memory of “collective land ownership”.

Turning to something slightly different, the superb job done by Jiang Tianwen and Fan Zhihong of *Study on the Mechanism of Behavioural Distortion in China’s Medical System*. The paper is actually an outcome of their investigation into what deemed as some sort of a grotesque phenomenon in the domestic medical regime, the so-called “hospital-turned big pharma”. That is to say, rather than living on medical practice, the doctors in those state-owned hospitals virtually survive on their prescriptions, or plainly selling prescribed drugs like those walking on the pharmaceutical line of life.

By dramatising the current regime, the writers come up with a

game of market-like “shadow hospital” where those, tagged as “medical representatives”, take on the role of entrepreneurship and play it out together with their teams of specialists, such as doctors, purchasing staff, accountants, and so on. The co-operative pay-off game so designed affords readers the rationale behind the peculiar twists permeating all over the regime and brings forth the fact that such a peculiarity is neatly serving its market niche. In the words of the writers, such a twist is the natural reaction of market forces, indelibly associated with the price distortion to the extreme.

Moving on to the topic with more liberalistic flavour. Ever since the market-based reform got underway some twenty years ago, “efficiency versus ethics” has been one of the unavoidable issues with which domestic economists, from time to time, found themselves beleaguered. Here again, the issue has once more found expression in the great liberal virtue that underpins Zhang Weiying - Ke Rongzhu’s work, *Trust in China: a Cross-Regional Analysis*.

Whereas the intensity of market competition could, at least in theory, have trust amongst market-players running both ways of better or worse, their empirical modelling has, against all odds, set forth one way prediction—trust scales up with the completeness of market. Put another way, the stronger a market mechanism, the higher is the degree to which trust is built amongst its players. What’s more, as the prediction stretches out, such trust is also negatively correlated to the degree of bureaucracy.

The next two papers in the book are some level-headed account that has emerged from a chaotic state of market jitters in the wake of initial turbulence brought about by the wave of mega-trends—the “new

economy", *Information Goods Sharing and the Production* by Zhang Jun and Jiang Jianqiang is one of them. In an effort to lend some theoretical support to the claim that some club-like environment would be a preferable sitting where information goods are enjoyed, the writers has come up with their "two-part pricing" model.

In real time, the first part of the pricing, commonly known to the club-patrons as membership charge, would in effect cover the overhead of information production, or "sunk-costs" on the lips of textbook-niks. The second part—fees for the tickets of pass, would pay for the cost of each go, or "marginal cost" as for those sticklers. So much so that such a pricing exercise would provide much-needed relief to the "free-riding" unease derived principally from the very fact of "non-excludability" in consumption of the goods. It also becomes obvious that such a double-billing outfit would be best poised for an economy exhibiting the property of increasing return to scale.

Knowledge Representation, Knowledge Complementary and Game-theoretical Equilibria of Intellectual Property Rights, by Wang Dingding is the other paper marching in the parade of the "new economy". In his view, it is quite possible to treat knowledge as some kind of commodity, or a tradable good so long as it can be expressed verbally. One of the salient properties of such a good, moreover, is the exhibited complementarity amongst its various kinds.

Assisted by his mathematical inference, Wang attests to the statement of positive correlation existed between the price of intellectual property right and the level of that particular knowledge allied with producers. One implication coming out of this conclusion is that insofar as those highly complementary goods of the sort are concerned, *ceteris*

paribus, the higher the level of education in an economy the higher the equilibrium prices. Also on the cards is the possible efficiency loss for the kind when traded at the same prices in the environment where the level of overall education is lower.

Next are three related articles centred on the proposition of *New Classical Economics*, the life-long endeavour of Prof. Yang Xiaokai. Not surprisingly, by trying to put up some decent provocation, Young professor has well and truly been engaged in an uphill battle against the well-established. The first article is a critique of the proposition put forward by Liang Qi and Zhang Erzhen, entitled *Theory of Comparative Advantage, Revisited*. The next comes with a simple reply from the professor, *New Trade Theory, the Theory of Endogenous and Exogenous Comparative Advantage: a Reply*. And finally, I made a bit of manoeuvring by taking in Cheng Lian's reinforcement, *New Classical Economics: an Inheritor from a Challenger*, in the hope that it would be helpful for readers to have some reasonable grip on the battlefield.

The debate about *New Classical Economics* is arguably a red herring in this scant space as it is more involved than what can be sorted out with a few magic words. Suffice it to say here that simply by means of the passed, it should not be that hard to accommodate mentally the guardians of the old whenever upon a rise of the new. In any case, hewing to the rules of the established is a rational reaction to the problem of information—a cost-saving technique brought about by an “open programme” genetic with the being coined “human”. Nonetheless, such a debate does bring forth the fact that the challenge to the classical tradition had sent quite a shock wave throughout his closely defined community in both the West and China in 2002.

Before ringing down the curtain on the book, I fitted in my last choice, *Incomplete Contract Theory: Another Perspective* by Chen Zhi-jun and Ding Li. No doubt, it is yet another paper in the defiant mood. After hectic backdrop-setting activities around the notion of information, involving such issues as knowledge expression, logic, linguistic structure, cognitive ability and so forth, the writers at length put themselves together and throw down the gauntlet. But this round, out challengers are poking a “paper tiger”—a show business of playing safe. Why is that?

The finger promptly lifted is pointing at the proposition of optimal risk sharing in efficient contract arrangement broadly treasured by property rights’ gurus who are firmly stuck in the neo-classical mode of tradition. Not so, say the challengers, under the circumstances of complexity and uncertainty, the proposition simply wouldn’t add up. True as a die. Yet, such disbelief had been raised and subsequently vindicated long before the end of last century by Coase and Williamson in their transaction cost approach that draws on broader traditions than simple neo-classical economics. As they put it, the techniques of neo-classical constrained maximisation is inevitably less rigorous to calculate ideal solutions to contractual problems when bounded rationality and incompleteness dominate the contractual environment. In fact, a “better” approach can also be found in principal-agent theory.

Nice try, still, provided that the benefit of the doubt is not stingily withheld. But again, that brings out the point made previously—the task of sorting out academic heritage should be essential for researchers. Or, they would expect to be found ensnared at the bottom of “repetitive trap”. On the other hand, though, one ought not to be so

pernickety about such boldness of challenging the established. After all, Keynes' "animal spirit" is said to be driven by incentives channelled in through such social values as power, prestige, wealth, and so forth. Yet, too much in a hurry could lead researchers astray down the road, tantamount to waste of resources. Economics, however, abhors waste.

Now, as the curtain is dropping, the show is almost over. Still, a couple of final words are needed to wind it all up. Hopefully, one wouldn't disagree too much on the statement that however objective the reality is, it has to be subjectively interpreted for the sake of injecting some meaning into it. The variation of individual interpretation of those objective linguistic symbols will inevitably result in some deviation as to the comprehension of what is perceived as facts. While I did try living in the neural circuits of the writers, it became clear to me that at some point I had to resort to one of my own, ending up with some kind of, shall I say, "creative misinterpretation". By the same token, however, readers at large would probably do the same, I believe.