

Xie Bai-san

# China's Economic Policies, Theories and Reforms Since 1949



Translated by  
Yang Lie et al.

Fudan University Press

# China's Economic Policies, Theories & Reforms Since 1949

**Author:** XIE Bai-san

**Translators:** LUO Han

YU Zhi-nuan

YANG Dong-xia

YAN Hai-xing

**Revisors:** YANG Lie

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**1949 年以来  
中国的经济政策, 理论与改革**

谢百三 著

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## **Abstract**

This book introduces and analyses the basic facts regarding China's policies and reforms on price, wage, taxation, investment, social insurance, rural and township enterprises, individual and private enterprises, etc. The book, rich in updated data and vivid examples as well as penetrating theoretical analysis, can serve as a window through which people can know what has happened to China's economic policies since the founding of the People's Republic of China.

## PREFACE

Mr. Xie Bai-san attended my classes during his postgraduate program in the Department of Economics, Peking University from 1983 to 1986. Being diligent and inquiring, equipped with an open-hearted and pioneer mentality, he always got excellent marks in his studies. In consequence, over the years after his graduation, he has made quite a lot of achievements in teaching and scientific research. I am especially glad that his book "Economic Policies; Theories and Reforms in China Since 1949" in English will soon be published. So far as I know, there are very few English editions systematically analysing China's economic policies and theories; so the publication is a significant event.

In the book the author advocates price reform; however, reform must be gradual and systematic. He also supports the stock-holding system on the basis of state ownership, with reform of ownership as the mainstay. I agree to all these points of view. I realized the importance placed upon economic reforms as I read through the book. At this opportunity I'd like to describe a few points to all the readers of the book, both domestic and overseas.

In the period of first half of 1991, as compared with the period from the second half of 1988 to first half of 1989, the impetus for inflation has been restrained and prices have been basically stable as compared with the period from the second half

of 1988 through the first half of 1989. What is more, agricultural output has increased steadily; export trade has been prosperous; the balance of payment has improved; markets have been restored to order thanks to rectification. All these are out-and-out successes. However, as the author has related in the book, a lot of issues in economic life must be highlighted. In general, the economic benefits of enterprises are decreasing; fiscal budgets are getting tighter; adjustment of the industrial structure is slow; the phenomenon of structural weakness in markets still exists; and invisible unemployment in towns and rural areas has not yet been overcome. All these reflect difficulties which are fundamental problems, problems of the economic mechanism. Presently the key problem in the national economy is the non-implementation of conversion, conversion of traditional economic mechanism to that of planned commodity economy. Because of this we are in a vicious cycle: overheated economy—inflation—retrenchment—recession—investment stimulation—new cycle of overheated economy—inflation...

This can be summarized as a phenomenon described in Chapter 9 of the book: relaxation gives rise to disorder—disorder brings about restraint—restraint causes standstill—standstill necessitates relaxation. In short, more inflation is inevitable before the economic mechanism has been converted.

The goal of reform is to convert the traditional economic mechanism into a new one operating in the planned commodity economy. From this viewpoint. In the period from 1978 to the first half of 1991.

The reform of the economic mechanism has been successful

though it's only beginning. There is a long process to undergo before the new operating mechanisms are fully built up. In relation to enterprise reform, the contract responsibility system is only a transitional form, as administrative functions have not been separated from enterprise functions; neither independence in operation, nor responsibility for profit or loss has been realized. With respect to market reform, the market regulatory function has been put into effect in a primitive form. The price structure is still unreasonable, and the market remains imperfect.

As for the adjustment of the macroeconomic system, it is also in the beginning stage. The effectiveness of the system is limited, owing to lack of vitality in enterprises and imperfect markets. As a result, adjustment through the macroeconomic system — with indirect adjustment as its main function—can't be further developed.

Success of economic reform over the past twelve years, however, shouldn't be underestimated. The economic situation today is better, as shown in, among other things, the growth of the national economy, the improvement in living standards, the enhancement of the nation's strength. All these should be attributed to economic reforms.

A debate has not been resolved in development economics: which is better: balanced growth or unbalanced growth? My understanding is, starting with harmonious industrial structure, balanced growth is likely feasible; or, starting with disharmonious industrial structure, the unbalanced growth will be better. Similar problems exist in studying economic reforms: one school upholds even development, while the other—deve-

lopment with focus on a few sectors. In respect to this argument, my opinion is: a judgement must be made in accordance with the situation at the starting point. The prominent problem in China's economy is, as explained in Chapter 10 of the book, that enterprises lack vitality, resulting in decreasing economic benefits. The slowing down of enterprise reform restrains reforms in other areas. Consequently even development isn't realistic. By focusing on and deepening enterprise reform, can we move forward in getting considerable achievements in reform of the economic mechanism. Development with a focus on a few sectors by no means signifies non-coordination among all sectors. Highlighting enterprise reform in the overall reform of the economic mechanism in the coming five years is very important; the argument is supported by the fact that the state-run large-and-medium-sized enterprises are the mainstay of the socialist economy generating social wealth. Becoming really dynamic through reform, state-run enterprises will be able to make contributions to the sound development of national economy, thus guaranteeing social stability. In regard to the interrelationship between enterprises and markets, enterprises are the main participants in markets. How can markets become perfect without a dynamic participants? In regard to the interrelationship between enterprises and the macroeconomic system, how will be the macroeconomic regulatory means be effective if enterprises react incorrectly and inflexibly toward external changes? These are theoretical reasons why enterprise reform should be the main task during the period of the Eighth Five-Year-Plan.

I have advocated the establishment of a stock-holding sys-



tem. Now it is in an experimental stage. Experimentation is indispensable.

To summarize our experience and systematically put it into practice are necessary. For all enterprises to rush into reform at the same time is harmful. This would furnish the reputation of reform and would do harm to state-owned properties. The realization of a stock-holding system based on public ownership is closely related to the establishment and implementation of a state-owned properties administration. At present, realistic practices include: developing mutual stock-holding, cooperation on a share-basis, organizing enterprise groups, stimulating stock exchanges on an equal-pricing basis, and reorganizing state investment companies into state stock-holding or stock-participation system. All these practices must be performed on the basis of scientific evaluation of state-owned properties and determination of investment subjects. Enterprises in all industries except those related to basis subsistence needs are likely to be transformed into stock-holding systems so that public properties may be protected, maintained, and administered in a better way.

In addition, experimentation stock-holding systems among workers may also be expanded. But the stock or shares must be regularized. Shares should not be mixed up with bonds. Dividends must be paid on the basis of profit. No dividends should be paid in the guise of interest and repayment of bond when the issuing-enterprise suffers a loss. As for the sale of stock to the public, the practice may be expanded together with the summing up of experience gained in experimental issuing-companies. No serious problems will appear if the rules and regulations are per-

fect and administration is sound and strict.

Realizing that time is pressing, we should push on with the reforms in the coming decade. The nineties is the key decade for economic development and reform in China. In regard to development, our aim is to double GNP. As for reforms, can we complete the transformation of the economic mechanism? before the transformation is complete we can't realize our other goals. The task is very challenging. The building up of the enterprise incentive mechanism, accumulation mechanism and economy stability mechanism can only be completed on the basis of deepened enterprise reform and market reform, as well as on the basis of a perfected macroeconomic regulatory system. Without such a transformation, our economy can't be pushed on to an orbit leading to a consistent, steady, and harmonious development. In consequence, our point of view is, we should cherish a sense of pressure, time is pressing for reform and for the deepening of reform.

Li Yi-ning  
Professor and Director  
Department of Economic Management  
Peking University  
October 8, 1991

## INTRODUCTION

Since 1978, China has been carrying out the economic reform and open policy for more than 10 years. Owing to the involvement of a population accounting for 1 / 5 of the world total, it goes without saying that such economic reform and open policy have great practical and historic significance. Do the other 4 / 5 of the world population understand all these? Will they support the Chinese people in their fulfilment of this great cause? I supposed that the answer would be "Yes". However when I learned, at the beginning of 1990, the information about the résumés, addresses and fields of study of about 20,000 economists all over the world in "The American Economic Review" (1989; Vol.12), I was surprised and rather disturbed by the fact that only dozens of economists had their researches related to "Chinese Economics". I also notice that many articles (published outside China) of foreign scholars about the impressions of their visits to China and about China's reform and open policy are neither profound nor specific — they gain a superficial and obscure understanding through cursory observation. Moreover there is virtually no introduction to such an important fact that the Chinese people have been deepening the reform and sticking to the open policy since the summer of 1989. Evidently many economists, a considerable number of governmental heads and people all over the world have half-baked knowledge of China's economy. As a result, China will fail to achieve the under-

standing and support of many friends to its reform and open policy and consequently this important process will be lengthened and become more difficult. China needs the world and the world needs China. The situation that less than 0.5% of the world economists are engaged in the researches of "Chinese Economics" should no longer remain as it is. As a Chinese economic researcher, I have a sense of responsibility to offer, as early as possible, a book in English which profoundly and comprehensively introduces and analyses China's reform and open policy to the governmental heads, scholars and people all over the world. Fortunately this idea enjoyed warm support of the Friedrich Ebert Stiftung (Germany) which invited professors YANG Lie (Foreign Languages & Literatures Department of Fudan University: ), Assistant Professors LUO Han, and YU Zhi-nuan (Department of World Economy), YNAG Dong-xia and YAN Hai-xing to translate this book. The Preface is translated by (Professor Lu Ting-gong and Assistant Professor Lu Bo ) Dr. Klaus Funken, the first reader of this book and the Head of Shanghai Office of the said Stiftung highly appraised this book after he thoroughly read the whole translation: "It fills the gap in the world economic researches on China's economy (especially since the summer of 1989). It is impossible to get in other countries such a book on China's economy with rich contents, penetrating theoretical analysis and latest data. The book will become a bestseller in the world."

This book is based on the lecture notes written during my 5-year teaching in Fudan and Qinghua universities — two famous schools in China and Asia. For this purpose I have paid

dozens of visits to the various ministries and committees of the State Council of P. R. China to make investigations and researches. Meanwhile I have solicited opinions from my students — more than 1,000 directors and managers of enterprises and several thousand of undergraduates. Therefore the book is an analysis, summary and estimation of China's reform and open policy in the past and future rather than a simple graphic explanation of policies. Most of the statistics have been updated to the end of 1991 — the latest data available in China. As a result, my lectures, like those regarding China's reform, are warmly welcomed. I have been invited to offer lectures in Peking University, Sichuan University, Tongji University and other dozens of universities and colleges and provinces.

In view of China's status quo, the book bases its analysis mainly on the political economics and occasionally on Western economics. Nevertheless the readers abroad should not worry about whether they understand and like this book or not. The book reviews, summarizes and analyses the traditional economic system from 1949 to 1978 and the reform and open policy since 1978.

The core of this book is Chapter One and Chapter Nine on "price reform" and "ownership reform", for China started its reform in these two fields. Another important chapter is Chapter Eleven on opening to the outside world and the policies regarding special zones. These three main clues run through the whole book. Due to the limited time, some important economic policies concerning money and finance, commercial circulation, rural areas, etc. have not been discussed in this book.

Acknowledgements should go to: my dear and respectable teacher Professor Zhao Jing, Peking University; Professor Shi Shi-qi, Dean of the School of Economics, Peking University; Mr. Li Yi-ning and Mr. Xiao Zhuo-ji, China's famous economists; (Professor Li wrote the preface for the book); Professor Zheng Shao-lian, Dean of the School of Management, Fudan University; Professor Shi Jing-xing, President of Shanghai Cadres' College of Economic Management; Mr. Liu Xiao-hua, Head of the State Council Office of Special Zones; Mr. Qiu Jin-li, Mr. Xu An-lin and Mr. Zhang Xiang, Chinese People's University; Mr. Wu De-run and Mr. Gong Shao-ming, Fudan University Press; Dr. Klaus Funken (the Head), Mrs. Naomi Y. F. Chan, Ms Ying Jia-ru and Ms Ye Fang (the staff members), Friedrich Ebert Stiftung; more than 1,000 directors and managers of enterprises and numerous young students who invited me to give lectures and expressed their highly valued opinions on my lectures; and a number of government heads of provinces and municipalities.

I also wish to thank Mr. Chen Shi-biao, editor responsible for this book, who is of great attainments in English and economics and who spent 30 sweaty (30°C) busy days in editing this book in a qualified way.

Last, let me dedicate this book to my dear father Xie Jing-you. I was so busy gathering materials for this book that I had no time to take care of my 77-year-old father who had been ill in those days. He died, while asleep, in the small hours of 17th March 1991 when I was just travelling by an express train back from the investigation in Beijing. After the early death of my

mother, my father took infinite pains to bring us up and showed us his great kindness. He was also concerned with this book and proofread its Chinese text. To give expression to my grief and compunction, I dedicate this book to my father.

Through this book, I wish to extend my cordial greetings to the economists all over the world, to build ties of friendship and connections and to introduce China's reform and open policy to the governments and people the world over through these economists by different languages.

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