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Foreword

Ke Rongzhu, Zhang Bin and Zhou Ye-an

Adjustment in editorial style of *China Economics* 2009

It is interesting that there are more and more interdisciplinary research, but barriers between different disciplines has been enhanced since the research methods and modeling techniques differs hugely, thus it is difficult to make reasonable judgments on every paper. In consideration of this difficulty, Beijing Unirule Institute of Economics hosted a special seminar in the first half of 2010, focusing on how to make *China Economics* better. Participants of the seminar included Zhang Shuguang and Zhou Ye-an, the two people who originally in charge of editing, and some special guests, such as Mao Yushi, Fan Gang, Lu Feng, Wang Hao, Wang Jun, Guan Yiping, Fu Shihe, Li Zenggang, Zhang Bin, Yang Qijing, Qiu Feng and so on. They conducted a heated discussion around the achievements and existing problems in past volumes of *China Economics* during the seminar and then determined the editorial direction of the *China Economics* series in the future.

A major adjustment in editing was made since *China Economics* 2009 with respect to the conclusions reached in the seminar and the advice of Zhou Ye-an. Firstly, re-establish the

editorial team with Zhang Shuguang and Qiu Feng in charge of the overall coordination. The specific editing work is a joint responsibility shared among Ke Rongzhu from the Chinese University of Hong Kong, Zhang Bin from IWEP(Institute of World Economics and Politics) and Zhou Ye-an from Renmin University of China, with Zhou Ye-an directing the draft. The relative division of such work for the three editors is as follows: Ke Rongzhu is mainly accountable for selecting and commenting papers on the field of micro-economics. Zhang Bin is mainly accountable for selecting and commenting papers on the field of macro-economics. Zhou Ye-an is accountable for selecting and commenting papers on all the fields other than the two mentioned above. Secondly, give prominence to the research focus of the year to form a theme. It is generally accepted that the research focus in 2009 was the income distribution problem and this research area has major theoretical and practical significance. Therefore the editorial team choose income distribution as the main theme of *China Economics 2009*, then Ke Rongzhu is committed to take responsibility of paper selecting and commenting. Last, but not least, in order to better avoid the professional blind spots, the editorial team invites experts in related fields to make paper comment and write review essays for the theme papers.

The editorial team began operating in July 2010 after the determination of the new editorial team and editorial style. The editing work carried out within the framework of dynamic combination of recommendations from academic journals,

scholars' self-nominations and editors' choices. Compared to 2009, academic journals significantly enhanced the enthusiasm for recommending papers this year, the total number of papers gathered was 50. From the papers recommended or self-nominated and other representative papers selected from major academic journals according to the editorial team's judgment as complement, there were 15 papers finally selected for *China Economics 2009*. Some papers didn't make through the final selection because the limited space in this corpus, and it didn't necessary meant that those papers were below the academic level of the chosen ones. This corpus can't fully reflect China's economics. Yet we hope to present the progress of the China's economics through some chosen points, in which also reflect the efforts and progress of China's economists.

Overview of China's Economics Research in 2009

Research among Chinese economists shows two characteristics; one is the strong sense of reality, the other is their inner sense of mission. The term "reality" means that they are sensitive to the changes in socio-economic phenomena and eager to catch the trend, so the major problems in these areas will become hot topics among Chinese economists. For instance, the hottest topics in 2009 were the Capriciousness of macro economy and income inequality of China's society, so Chinese economists published many papers on these fields 2009. The term "mission" represents the responsibility Chi-

nese economists have on China's socio-economic reform; while economists are trying to give advises to government or provide intellectual aids to society, their researches will settle in socio-economic policies.

Naturally, this sense of reality and mission causes a lack of fundamental theory discussions and a majority of social or economic policy researches published in China's academic journals of economics. For example, the researches of macroeconomic policies have occupied the field of macroeconomics; however, there're few discussions, which are mostly direct application of foreign models without considering prerequisites and micro basis, on internal mechanism, micro basis and proper models of China's macro economy, so the depth of related academic papers is not enough. All these factors make it difficult for us to select representative papers in academic publications in macroeconomics; thus, even though there're many recommended papers in macroeconomics, we only chose 5 representatives according to cautious attitude.

Microeconomics discusses more of micro individual (such as family) and organizations (such as firm) decision. In theory, progress of these studies is so rapid, while research methods and technologies are increasingly difficult that it's hard for domestic economists to even catch up. However, in the field of empirical microeconomics, research based on China's samples and data sets is still bright. This is because there is common aspect as well as personality in individual, which leaves doubt in whether this personality will affect decisions of the common

side to be proved by empirical observation. Modern economics achieve such studies not only through a large number of survey data, but also through the increasing use of experimental methods. For the former, microeconomic is an important research area. There are at least three papers in this book related to quantitative estimation based on survey data. For the latter, because of technical barriers and some prejudices, domestic scholars' mastery of experimental method is relatively weak, and the skilled scholars are even fewer.

Chinese economists have made commendable achievements in the research for the specific problem of China especially for the area of income distribution in recent years. Early Chinese economists, like Zhao Renwei and Li Shi as representatives, had studied income distribution issues in-depth and comprehensive and established their own survey data sets. Given the fruitful accomplishments in income distribution research in 2009, this series sets a special topic in income distribution and selects 6 representatives from numerous papers; among the 6 selected papers, there're only two papers that based on macro statistical data to start empirical research, and the remaining four start their empirical studies on survey data, among which two papers are based on database under the leadership of Professor Li Shi. These results in research field of income distribution have drawn great inspiration to follow-up studies that Chinese economists can also study frontier issues by local experience on their own, while the data set should be built by scientific method as precondition, which is the fundamental

work that Chinese economists can not avoid in the future.

The third focus in 2009 is the public issues, linking to the supply of public services, the quality of public governance and the actual welfare of the residents which increase slowly. The reflection of these problems on specific socio-economic phenomena means social discontent, social friction and conflict-ridden, which will lead to increasing social transaction costs and thus low efficiency in allocation of resources at society level. Among these issues, income distribution is an important aspect. Chinese scholars have also studied extensive issues on redistribution, health, energy and resources other than emphasis on income distribution, but the constraints of data and research methods surrounding public issues cause that papers in depth are rare while the area appears to prosperous. This series selected three representatives from the existing papers, which are based on statistical data for either evaluation of public policy or micro econometric analysis; all these researches have given a new perspective of public policy analysis henceforth.

Overall, China's economic research in 2009 remains strong effort, and scholars have exhibited arduous explorations in many areas, making a number of high level results on some issues. In particular, Chinese economic researchers began to master the widely used research techniques and methods of modern economics, which helped them to discover the relevant issues in depth better. For example, it is worth mentioning that the micro econometrics has been widely used in empirical

research, of which skilful use of instrument variable methods, panel data methods and cross-sectional data methods can be seen in this series; experimental methods are gradually accepted, since laboratory experiments and natural experiments appeared in the existing papers. It's predictable that future China's economics will be more flourishing and more open to international standards gradually. Of course, the most important thing is that China's economic research is more scientific.

An Overview of Selected Papers in This Series

The Topics of Income Distribution

Income and its distribution are not only the consequence but also one of important motivations for the economic development. And Income distribution problem can be specified into researches of the income sources of individual and family, while being expanded into analyses of the income distribution pattern of the national economic account. In 2009, when the income distribution topic aroused widespread concern, China's economists contributed a batch of insightful researches. This book collected six representative papers from them, among which four researches focus on the micro perspective, while the other two focus on the macro perspective.

From the micro perspective, Chen Yaobo's paper "*Cream-Skimmer or Underdog? Labor Type Selectivity, Pre-Program Wage, and Rural Labor Training Program Outcome*" investigates the relationship between the rural labor training and the

labors' income. The purpose for the training is to maximize "the value-added effect", i. e. maximizing the added value of the trainees' ability so as to increase their income. Thus, from the perspective of economic efficiency, there exists a matching problem between trainees and the training plan. The main contribution of Chen's paper is using instrumental variables method to identify the motivation and effect of participating in this plan. Regarding the motivation, the author holds that the accessibility of labor force in one family has significant impact on the traveling cost between training center and each household. Regarding the training effect, the author holds that the self-selection effect has significant impact on the increase of trainees' salary level (thus the training effect should be discounted). To get the results, the most crucial question is the validity of the instrumental variables. The validity of instrumental variables needs two conditions: Firstly, the variable and the error term should be uncorrelated. Secondly, the variable has significant correlation with the independent variable. Only such variables could guarantee that once it has influence on the dependent variable, the effect goes through independent variable. The author chooses "the decrease in salary before training" as the regressive instrumental variables in the first period, holding that it is uncorrelated with the income changes, but it affected the probability of high-ability labors to participate in the training plan. The second part in this assumption seems more plausible, while the first part remains controversial. For instance, the decrease in salaries before training

may result from labors' disability or failing to meet job requirements. Thus, the labors need study to adapt to new jobs, in which way the instrumental variables are correlated to the income changes.

If the labor training has influence on income, then education may pose more important influence. This kind of influence reflects both on the efficiency level (such as improving the overall income level) and the equity level (the different improving effect of education on diverse groups income can expand the income gap). Ning Guangjie's paper "*Can Education Expansion Improve Income Distribution? Evidence from the CHNS data 2006*" investigates into this problem. The paper discovered that the influence on the income distribution was caused greater by the changes in the earnings rate in different education levels rather than the changes itself. This conclusion implies that only relying on expanding education scope, it may not be sufficient to improve the income distribution. The return for education is not significant, especially for the labors who only received high-school and below educations. The explanation for the decreasing marginal effect of scope return can be diverse. One possibility is that after education expansion, especially in university recruitment, labors who fails to enjoy higher education opportunity turns into more disadvantage situations in competition (since there are more higher education competitors in the market). Thus, those who lose higher education opportunities because of poverty were put onto more disadvantage situations. How to take the internal imbalance in

the education resources allocation needs further research. More importantly, we need to think about eliminating the problem of over-education on the labor market and raising education quality.

As mentioned in Ning's paper, the impact of education on the income inequity may result from the distortion in the labor market. One important distortion refers to that the allocation of labor resources is not based on the labor productivity. In principle, jobs should be given to those individuals who have highest labor productivity, i. e. , more capable, more effort, more income. But in reality, those jobs may be taken by individuals who enjoy more relationship and background. Chen Zhao, Lu Ming and Hiroshi Sato's paper "*Who Entered High wage Industries? The Role of Social Network, Hukou and Labor Productivities*" provides a measure on this problem. The authors discovered that social network, parents' education and political identity and town census register are conducive to labors' entering high-income industries. Of course, high labor productivity in some industries may lead to high income. But in China, high income in the industries enumerated by the authors has greater possibility resulting from monopolizing the benefit and entry barriers of labor market. Another possibility is that whether those labors entering high-income industry have higher productivity. By using instrumental variable and controlling other factors like education and age, the authors still found that relationship and social network pose significant influence on the entry of high-income industries. Of course,

two necessary conditions relating to the validity of instrumental variables still need attention. The author used the political composition of spouse's parents in the land reform period as instrumental variables, avoiding using that of the subject's parents directly (since the political composition of the subject's father may be correlated with his or her capability). But through the marriage market matching, personal capability may still be correlated to the political composition of his or her spouse's parents.

If in the high end of the labor market, relationship and political background distort the resource allocation, which has caused the income inequity. However, in the low end, what are the important factors affecting peasant household poverty? Zhang Yuan, Wan Guanghua and Xuqing's "*Market Transaction and Rural Poverty: An Empiric Study from a Micro Perspective*" discovered that more participation in market can significantly reduce the probability of peasant household getting into poverty. The economic fundamental principles, from Adam Smith till now, has always advocated that market can ameliorate resources allocation and make all voluntary market trading parties benefit, thereby reliving poverty. Moreover, as the expanding of market scope, labor division increased the labor productivity, improving the benefit of all trading parties. The major contribution of the paper is that it constructed theoretical models and used actual data to test the negative relationship between participation and impoverished probability. His analysis based on the participation degree of peasants

measured by the authors. Of course, as the authors said, aside for market participation, farmers' participation in human capital and the population burden rate affect their poverty as well. For the theoretical model and empirical test in this paper, the discussant, Zhang Hongliang, gave a fantastic comment, what we would like to emphasize here is that we need more authors like Zhang Yuan et al. doing research into poverty problem, this is not only a classical economic problem, but also a problem with practical significance for China.

From the macro perspective, Bai Chong-en and Qian Zhenjie's paper *"Who Has Eroded Resident's Incomes? An Analysis of China's National Income Distribution Patterns"* inspected carefully into the pattern and its dynamic changes in disposable income of government, enterprises and residences. Although after 30 years' rapid economic growth, compared with 1980, China's GDP per capita increased for about 11 times. However, the growth of the rural dwellers disposable income increased less than 6 times, and that of urban dwellers increased less than 7 times, which is significantly slower than the growth in GDP per capital. This could be the reason for the slow increase in public, especially low-income level. To some extent, this paper provides a answer: government and enterprises occupied resident's income, especially in the recent 15 years from 1996, when the whole country enjoyed rapid growth. The authors refer to The Statement of Cash Flow, Provincial GDP data, and etc. in order to calculate the national income distribution pattern and its change and analyze its rea-

sons. This paper does not give final verdict on the fittest income distribution pattern, and some authors' conclusion or policy implication may be still arguable. For example, it may not be proper for the author to refer to the OECD countries government income percentage while analyzing China, on the country, it may be more proper to refer to the data of Japan and the Four Asian Tigers in similar developing period. Yet, the current national income pattern may serve as a warning sign. Because other rapid developing economy, such as Japan, significantly improved the disposable income per capita while going through economic take-off. More and more people may ask, why did they become resident wealthy countries after 30 years rapid development, while we are still poor after that?

Different from Bai and Qian, Zhou Yunbo's paper "*Urbanization, Urban-Rural Income Gap and Overall Income Inequality in China: An Empirical Test of the Inverse U Hypothesis*", focuses on the overall changes in income gap and its decomposition. Firstly, the author referred to a clear-cut model to demonstrate that if an economy has rural and urban sectors with inner-sector income equity but inter-sectors income inequity, with the process of urbanization, the GINI coefficient of income distribution for the entire economy would be a reverse-U curve. Secondly, the author tried to use statistical data to validate this prediction. The discussant, Deng Quheng had provided constructive comments into the authors' specific estimating method. What we need to emphasize here is that asides from economic efficiency factors, another important rea-

son for China's urban-rural income inequity is the artificially institution distortion. For example, resources are administratively amassed in cities, causing plenty of "rent". In order to eliminate urban-rural inequity, we cannot only rely on change of administrative districts or nominally population changes in cities. As what the author pointed out in the end, lowering the barrier of factors mobility in rural and urban districts is an effective solution.

The Topics of Macroeconomics

Economic fluctuations, economic growth and regional imbalances are currently major macroeconomic issues in China. Chinese economists have not only begun to explore the use of micro data and construct microeconomic foundation of macroeconomic fluctuations, but also to study the regional differences and the international division of labor through panel data and stochastic frontier approach, and to discuss the possible conflict of interests by theory of new political economy. These explorations have showed that the Chinese economists have a better understanding of macroeconomic issues.

Zhang Jun, Chen Shiyi and G. Jefferson's "*Structural Reform and Industrial Growth in China*" analyzes the source of China's industrial growth. From the macro perspective, there are two sources: one is the increment of inputs; the other is the improvement of factors distribution, i. e. structural changes. The authors discovered that the latter posed significant impact on China's industrial development. Especially from