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Foreword: Would There Be a Chinese School of Economics?*

Sheng Hong

1. What Is Economics?

According to an agreement achieved in Unirule Institute of Economics last year, I was appointed to act as executive editor—in—chief for the book, *China Economics*——1995. When I was reviewing some tens of eligible papers, a strange question suddenly came up to my mind: What is economics? Is it a methodology, or an interpretation of economic phenomena, or to testify a theoretical hypothesis to be true or false? If this question were not clear to us, we could not know well what our compilation of *China Economics* aims at, and how it can contribute to the development of china's economics.

* I am thankful to Prof. Zhang Shuguang, Dr. Zhang Yuyan, and Prof. Mao Yushi for their constructive comments. For all defects the author is responsible.

Economics, as a kind of human activities, may be called an “activity by a group of people interested in socio—economic affairs to simulate Science”. Then, what is science? There may be many definitions, but from the viewpoint of institutional economists, science is an “institution”.^① In this institution, coordination of human brains could be established; just as in a market, division of labor among human hands could be established. In a market, people divide their labor and cooperate with each other, through exchange and competition; similarly, in science, through exchange, discussion, teaching and division of specialties, people accumulate knowledge, create frameworks, innovate theories, evolve philosophies; i. e., human brain could be expanded far beyond individual’s. Scientific experiments and instruments are merely tools for an individual scientist; papers, works, theories and textbooks, are merely results of scientific pursuits.

In order to facilitate exchange among individual brains, competition among various ideas or theories, division of scientific specialties and spreading of matured knowledge, the science institution has established a series of norms and regulations. At the outset comes the principle of academic freedom, which protects any possible idea or viewpoint from being rudely depressed; and then the principle of fair competition, which guarantees discussions, disputes, publications of different ideas or theories not affected by non—academic factors, such as scholastic prejudice, political or religious factors, or even personal characters. In such a way, superior ideas or theories

could be accepted, spread and inherited by more people, forming a mainstream school; while the inferior ones would gradually pass into oblivion, or remain non — mainstream. People have developed language of the science, in contrast with natural language, in order to improve precision of language expression in scientific activities. The language of the science, usually strictly defined, could avoid many debates among scientists due to semantic problems, and greatly improve efficiency of scientific activities. Particularly, mathematics has become a popular tool for scientific expression because of its highly-developed logical structure; it is precise and univocal. People have been taking various forms of scientific discussion; exchange of ideas between individuals, meeting, symposium, forum, workshop, conference, etc. . When oral discussion turns to written language, it becomes books, especially academic journals. Academic journals embody norms of scientific research. Papers in an academic journal should correctly use the language of the pertinent science, with a normalized style of formulation. All references should be cited in correct format. Acceptance of papers should follow special standards and procedures. All the above sayings constitute “institution”, whereby individual wisdom adds up to forming the global wisdom of mankind, just as numerous bricks build a huge mansion.

In scientific research, using certain idea, framework, methodology or even philosophy, people usually take various forms of organizations, such as institute, academic society, a-

cademy, and so on. Not only different disciplines have different organizations, but different branches, schools of learning or even different research stages within a certain discipline could have different research organizations. Hence scientific activity bears some character of team. Finally, universities have become efficient organizations for spreading and inheriting fruitful accomplishments of scientific research, as well as providing opportunities for the young generation to share the benefits of scientific activities.

Therefore, science has brought great impact upon human history especially modern history, not because there had appeared individual scientists like Newton and Einstein, but because science as an institution has greatly magnified the function of human brain. Of course we do not depreciate the genius of Newton or Einstein, but their talent would not have brought them to the climax of human intellect, if it had not been for science institution. Newton said that he stood on the giant's shoulders. Really it is science, the coordination of human brains, that has changed the world, or more close to the reality, has broken the balance of agriculture and manufacture, west and east, human beings and Nature. Thus there emerged world—shaking “modernization”. Science exhibits its magnificent accomplishments: from steam engine to internal combustion engine, electric motor, nuclear power plant; from bicycle to train, automobile, aircraft, space vehicle; from rifle to machine gun, cannon, tank, missile, nuclear weapon. Science is directly linked with improvement of human welfare.^②

Whether it brings about enhancement of social benefit or not, science has benefited those who utilize it, although sometimes at the cost of damage to others, for instance, development of weapons.

However, the accomplishments of science said above have been constrained to study of relatively simple objects. People have been striving to apply this method of coordinated brains to study of relatively complex objects; life phenomenon, social organizations, or even human thinking. Economics is really one of these endeavors.

2. Economics as Science Transcends Science^③

Economics has been doing quite well in simulating science. Economics has established its own scientific language, terminology and logic structure. A group of preliminary concepts, a system of axioms, precise definitions, strict logic, all of these have moulded an economics language very different from natural language. One who lacks expertise training could hardly read an economic thesis. More remarkably, mathematics has been widely applied in economics. Economic textbooks nowadays may be full of mathematical axioms, theorems, formulas, much like those expressions commonly used in physics or chemistry. One who lacks mathematical background could hardly read papers in academic authoritative journals of economics, especially journals of international fame, such as *American Economic Review*, *Political Economy*, *Economic Literature*, *Econometrica*, and so on. As a scientific activity, eco-

nomics has become a profession involving big amount of professionals with a variety of divisions of specialties. One could go a lifelong way pursuing career in a very small expert field (such as price elasticities of a certain kind of products in a certain country), or in a specific stage of research (such as processing of data with certain characteristics). Aiming at more efficient study of economics, various forms of economic research organizations have emerged, ranging from university department of economics to specialized research institute, from various research societies to international organizations for economic research. Perhaps the most convincing event that acclaims the accomplishment of modern economics as a science is the establishing of Nobel Prize in Economics by Sweden Royal Academy. The first winners of this prize in 1969, Professor Frisch and Tinbergen, deserved the honor because they have "rooted mathematical rigor into economic theory", and they are "pioneers to develop economics towards a science based on mathematical and quantitative analysis". (Lunderg, 1969, p. 1, p. 3)

Economics, due to its success in simulating science, has won its relative superiority among social sciences and the humanities. Microscopically, economics is rather efficient for analysis; it is more mature and explicative than other humanities in dealing with economic phenomena and economic history. Hence economics has ever been crossing its boundary and penetrating into other fields; so as to be called ironically "economics imperialism". Currently economics has been applied

not only to traditionally economic phenomena, such as exchange and production in market, but also to analysis of voting procedure, government institution, family issues, religion and morale, global environment, even evolution of cultures and conflict of civilizations. Economics plays its role not only in study of law, politics, history, but also in sociology. For ordinary people, one who has some knowledge of economics could be more thoughtful when viewing social problems.

Nevertheless, looking at a long historical period, one finds that the impact of economics upon human history was not so great as that of science. The industrial revolution and economic development in modern history was not due to discovery of principles of economic development and practical application of these principles. On the contrary, one can find no direct correlation between study of economics and actual development of country's economy. A large number of economists in a certain country is not the cause of economic growth, but rather its result. Moreover, when certain economic theory was effectively applied to society, often the result proved to be calamity. The failure of central—planned economy is a distinguished example. It shows that a social institution designed by human rational could be far less efficient than that of natural evolution. Presently, when almost all countries of former central—command economy have determined to take steps toward market economy, economics has shown once again its limit. The reform blueprint designed by scholars of mainstream economics (such as in former USSR and East Europe) has not

brought forth better results than other path of reform (as in China), but decrease of economic welfare.

Up to now, the positive impact of economics on human history has in a sense of negation, i. e. , it tells of things that should not be done. One thing worth mention is that, it is economics which incessantly tells governments not to carelessly intervene into people's economic freedom and market economy. We might well count that, the liberal economics of Smith had its impact on Britain to follow free trade in the mid nineteenth century; while Hayek held the tradition of liberal economics and kept criticizing central-planned economy, he exhibited influence in the market-oriented reform of countries formerly under central-planned economy. During 1980's and thereafter, western countries have adopted policy of liberal economics instead of Keynesism, a fact which is closely related to the resurrection of liberal economics. However, even these achievements could be erased by the logic of economics itself: Change of policy or institution comes out of people's seeking their maximum benefits, and is effectuated through political process; there has little to do with ideas of economists.

So we can find that economics is much different from science. As for economics, coordinated brains did not create miracles as science did, but did find its own boundary. The reason is that, for classical science, coordinated brains deal with a world that is lifeless, non-reactive, incapable of game-playing. While for economics, coordinated brains deal with another set of brains,^④ which is either diversified or coordinated.

The superiority of coordinated brains (as economics) could be offset by countermeasures of other brains; when they are diversified, their countermeasures could be passive (such as people's rational expectation and action with respect to certain macroeconomic policy); when they are coordinated, their countermeasures could be active (such as reform of a planned economy towards market economy). In other words, when there exists repeated game—playing between people, one side can never gain benefit while damage the other side by means of his economic study. The logic of economics is : Do you want benefit? Then you should let others gain benefit too. It is interesting that economics itself is most aware of this situation. Its most influential theory has been based on epistemology of “bounded human rationality”. In dealing with socioeconomic problems, the most important finding of the coordinated brains is that it has its own limitation. This conclusion, in an era when human rational is often exaggerated, should be presented in a rationalized persuadable form. Thus, economics delimits a boundary line for the function of science or human rationality, implying that economics transcends science. Knowing this boundary, economics to be responsible to human society, endeavors to prevent people from crossing the boundary, i. e. , to prevent excessive application of science. In a word, economics “is the rational expression of abidance by natural order, it is the rational proof of limitation of human rationality. ” (Sheng Hong, 1995a, p. 193)

3. China and Economics

Economics has been always viewed as a western learning. But, if we take the liberalism tradition as the core of economics, we can find it very close to the fundamental ideas of Chinese classical philosophy. In epistemology, Laozi said, "If you know that you don't know, you are superior; if you don't know that you don't know, you are faulty." Confucius said, "Say know what you know, say don't know what you don't know, that is knowledge." Confucianism was a rationalized system of thinking, from the very beginning it drew a boundary line for human rationality. It dealt with problems within this boundary, whereas shunned things outside it. Confucius said, "Pay reverence to ghosts at a distance", "You have not known life yet, how can you know death?" Confucianism focuses on worldly affairs, yet it is aware of the limit of human endeavors. As the saying goes, "Man proposes half, God disposes the other half." This inclination of Chinese classical philosophy advocates a liberal economic policy and institution; The government should "allow people doing what benefit themselves", "do nothing then (people can) do everything".^⑤

The similarity between Chinese classical philosophy and core tradition of modern economics is not accidental, there was historical background. Modern economics originate from the period of enlightenment of Europe. During this period, European missionaries in China introduced to Europe Chinese classical philosophy, which had significant impact on enlighten-

ment thinkers and economics pioneers. One important evidence is the book "Despotism in China" by Quesnay. The eighth chapter of the book, in which Quesnay described the core thought of economic liberalism, bears the title "Comparison of Chinese Laws with Natural Principles Underlying Prosperous Governments". It indicates that Chinese classical philosophy at least provides inspiration for modern economic liberalism, if not its unique origin. There exists observable clue of thought from Laozi's "Dao (way) follows Nature" to Quesnay's "Philosophy of natural order" to Adam Smith's "Invisible hand".^⑥ Smith, a scholar of the later period of European enlightenment, had close contact with Quesnay, and undoubtedly acquired nutrition of Confucian thinking from literature about China.^⑦ Although we can find origin of thinking concerning "natural order" in western history of philosophy, this thinking has never been mainstream.^⑧ During China's period of "May Fourth", whichever school of thinkers maintained that "China focuses on naturalness, the west focuses on artificialness". (Cangfu, 1916; Li Dazhao, 1918; Chang Naide, 1920; Liang Shuming, 1935). So we might acknowledge that modern economics is based upon the fundamental ideas of Chinese classical philosophy. We should not simplistically hold that economics is a western learning, but rather a blended produce of Chinese and western cultures in the seventeenth to eighteenth century.

Then, what is the difference between modern economics and Chinese classical philosophy? I have stated in an article of mine: "If we say that Chinese classical culture is the recogni-

tion of limitation of human rationality and an intuitive reverential expression of natural order, then modern economics is the rational interpretation of such expression.” (Sheng Hong, 1995 b, p. 127). Speaking more precisely, modern economics is a precise and rational expression of the “Philosophy of natural order”. Since this expression is very close to that of science, philosophy of natural order has been universally accepted, in an era when science is in the dominant position. Whereas Chinese Taoism and Confucianism, though embracing the same philosophical idea, have been abandoned by their countrymen, simply because their expression is “out of date”, or unscientific. On the other side, economics has been factually considered as “science”; economists hold that they are capable of designing socio—economic institutions, just like natural science. Economics keeps it’s authority of science; its conclusions have been said to be universally valid, just like laws or theorems in physics, either to be supported and effectuated by government, or to be advocated by some people blindly. Thus things go the other way around; inappropriate exaggeration of human rationality. In this concern, modern economics exhibits more negative impact than Chinese classical philosophy.

Since most of Chinese thinkers of the enlightenment period held that “China focuses on naturalness, the west focuses on artificialness”, in learning from the west and criticizing native traditions, they simultaneously abandoned the innate philosophy of natural order. That was somewhat reasonable on the historical background at that time. China suffered bullying

and invasion, not because Chinese advocated naturalness too little, but too much. What Chinese should focus on was to utilize governmental power, to mobilize all resources of the country, to establish “more artificial” modern military power. Hence, in learning from western science and democracy, China failed to highlight market as an equally important thing, in learning from western modern economics, China was little influenced by Adam Smith’s theory, but rather inclined to economic theories emphasizing on artificial design of “scientific economic system”. This perhaps is the theoretical reason for China to follow central — planned economy in later years. In turn, the planned economy once developed in China depreciated and depressed the mainstream tradition of modern economics—economic liberalism for a long time in modern China. After 1949, there were few liberal economists in mainland universities. Under the domination of Marxism economics, western mainstream economics could not even set up its curriculum. Therefore, in this period, western mainstream economics actually did not exist in universities of the mainland although there were a few scholars trained in western economics tradition.

No change happened until 1978, the start of “opening and reform”. Besides the political and economic factors, the theoretical factor caused the change is that a group of scholars trained in Marxism economics derived from it conclusions which ought to be derived by liberal economists. Pioneers were Sun Yefang and Gu Zhun. This indicates that, on one

hand, failure of the experiment of planned economy has deeply influenced scholars' thinking, on the other hand, Marxism economics still involves some affirmation of the naturally formed market economy. During China's period of planned economy, development of modern economics wound its way mainly in the form of Marxism economics. During China's transition from planned economy to market economy, many people formerly trained in Marxism economics have played active role in decision — making procedure. After 1978, in China's universities, *Das Kapital* remains the major curriculum, but many other economic theories have been arranged on lists of courses, including various branches of western mainstream economics, and reform theory of Eastern Europe. Modern economics experiences its real upsurge.

Modern economics serves the reform. When reform attains its great success, modern economics in fact has been dominating in China.. Economics departments in hundreds of universities have been training tens of thousand of students each year. Nearly one thousand graduates have gone abroad pursuing doctorate or master degrees of economics. Having graduated, they either stay abroad or return to serve the country. Economists have been grouping up academic circles. In the 1980's, aside from economics departments of universities, the Chinese Academy of Social Sciences (CASS), which was transformed from the Department of Philosophy and Social Sciences, The Chinese Academy of Science, established several research institutes of economics. After that arose several or-