

Chapter 31

Western Economics in China Over 60 Years After the Founding of the People's Republic of China



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It can be seen that western economics met very rough treatment in China during over 60 years of the PRC after its foundation. Its status and role changed in different historical stages. Roughly speaking, the period could be divided into two stages, namely the nearly 30 years before the reform and opening up and the over 30 years after it. In the first stage, it could be said that western economics was totally negated and criticized. In the second stage of over 30 years, it gradually won fair evaluation and attention and played an important referential role. The focus of this chapter was to formulate the influence and referential role of western economics to the development of economic theories in China in over 30 years after the beginning of the reform and opening up.

The term “western economics” that the author used here was a general term that referred to macro- and microeconomics and other related economics, such as monetary finance, cameralistics, international economics, development economics and econometrics, which were popular in western countries. In the author’s opinion, it was not appropriate and scientific to define an area of economics with regional concept. In fact, macro- and microeconomics, as the main part of western economics, both belonged to the theoretical system of market economy because macro- and microscopic economics both belonged to market economy.¹ And market economy was, in the end, the product of socialized mass production after it developed into certain stage. The combination of socialized mass production and private ownership created capitalist market economy while the combination of socialized mass production and public ownership would hopefully create socialist market economy. It can be said that capitalist market economy existed and developed for several centuries in

¹Huang (1998), Sects. 3–4, Chap. 1.

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history and so did the economic theories that reflected such market economy. China was building market economy on the basis of public ownership system, which was unprecedented in history. It was still in the process of construction or in incubation. The Chinese people were “crossing the river by feeling the stones” and there was still a long way to go for them. Although there was a vague outline in their mind, nobody could explain it in detail at present. And the economics or the theoretical system that studied and reflected socialist market economy was far from being established. So in the current historical period, only the capitalist market economy in western countries was the mature market economy in the world. And the economic theories in relation to it formed a relatively complete system. Some people called the latter modern economics, which was in fact a proper term. But people needed to be aware that modern economics, which studied market economic system, should include two major parts. Namely it should also include the theoretical system that studied socialist market economic system in addition to that studied capitalist market economic system. And the former still needed to be established by the Chinese people in the practice of economic reform and development in the future. The discussion in the chapter was only limited to the influence of the first part in modern economics to the development of economic theory in China in nearly 50 years or to the role that it played in such development. Considering that modern economics was also generally known as western economics, which became a term established by usage in higher education institutions at present, the author also uses such a term in this chapter.

1 The First 30 Years Before the Reform and Opening up

In the first nearly 30 years of the PRC after its foundation, western economics was always in a situation of being criticized and stifled in China. Newspapers and magazines were only allowed to criticize western economics and not to introduce it objectively or evaluate fairly. The course of western economics was cancelled in higher education institutions. Relevant courses in various departments of finance and economics only included Marxist political economics, which included the part on capitalism and the part on socialism, and *On Capital*. The textbooks used were those on political economics compiled by Soviet experts and those for various other courses in finance and economics. Historical differentiation was made among western economics and economists completely according to the standards given by Karl Marx in the books of *On Capital* and *The History of the Doctrine of Residual Value*. The economists in the classical economic school, such as William Petty, Adam Smith, David Ricardo, and Francois Quesnay, were basically recognized. The economic theories established by Jean Baptiste Say and Thomas Robert Malthus and those later than them were classified as the “vulgar” economic school of capitalist economics, which was regarded as being defensive, pseudo-scientific or anti-scientific or even reactionary. The more these theories were closer to the contemporary times, the more “vulgar” or “reactionary” they became. The radical reason for this was that they defended for capitalism market economic and profit motives. So they needed

to be negated completely and criticized thoroughly. Such “left-deviated” guiding thought of historical nihilism reached its apex in development from 1966 to 1976.

It was absolutely not incidental that China adopted an attitude of complete negation on western economics during the 30 years before the reform and opening up. There were certain economic and political origins and needs in it.

I. The Need in Implementing Planned Economy

After the foundation of the PRC, the state immediately started implementing centralized planned economic system. Thus, the state immediately monopolized foreign trade and finance and limited and cancelled commodity circulation and free market. Comprehensive socialist transformation was implemented on private industry and commerce and individual handicraft industry. National economy was shifted onto the economic foundation of public ownership system, which was dominated by state ownership and state operation. Thus it became possible to implement centralized planned economic system nationwide. Such a system required that people depended on administrative power to implement the planned operation of national economy. The government determined what to produce, how many or how much to produce, and for whom to produce. Planning replaced market mechanism as the basic means to distribute social resources. State-owned enterprises were included in governmental fiscal system under unified state control over income and expenditure. Banks became the “cashiers” of state fiscal organs. “Material transfer and allocation” replaced commodity circulation between enterprises, departments and regions. Fiscal allocations replaced enterprise investment. People never considered costs in production and expenses in fund using. Repeated constructions occurred endlessly and “investment hunger” became more and more serious. Like what Sun Yefang described, the entire national economy became a modern “natural economy”.² As a kind of modern “natural economy”, planned economic system was naturally incompatible with market economy. All economic categories and theories that reflected and studied market economy were completely opposite to it so that they were regarded as being “alien” or destructive because “natural economy” was actually disintegrated by commodity-money relationship. Therefore, planned economic system resolutely stifled market economy and abandoned western economics so as to maintain its own survival.

II. The Need in Theory or Ideology

In the teachings of Marx, Engels, Lenin and Stalin, socialism could only be established on the basis of planned economy. Besides, the Soviet Union relied on planned economic system to mobilize huge material resources and forces after the October Revolution and thus it realized industrialization within a short period of over 20 years and defeated German fascism. As a result, it was regarded as an unalterable principle that planned economy could only be inherent to socialism while market economy should be inherent to capitalism. Later, this doctrine was taken as the standard by traditional Marxists in the whole world led by the Soviet Union. Moreover, this

²See Sun (1979). Huang (1983).

doctrine exaggerated the incompatibility between market economy and planned economy as the incompatibility between market economy and socialist system. It put planned economy under the protection of the halo of socialism and regarded various mechanism and categories, such as market economy, market mechanism, profit motive and free competition, as dreadful things harmful to socialist system, which should be completely exterminated in practice and thoroughly criticized in theory. This doctrine dominated China's economic construction for nearly 30 years and it was broken by Deng Xiaoping after the Third Plenary Session of the Eleventh CPC Central Committee. This determined that western economics could not avoid suffering from the fate of being criticized and suppressed in early 30 years after the foundation of the PRC.

III. The Need in the Implementation of the Political Line of “Taking Class Struggle as the Guiding Principle”

After the foundation of the PRC, the country adhered to implementing the measures such as suppressing and eliminating counterrevolutionaries, bandits and local depots and punishing embezzlement. These measures were necessary for the young republic to maintain its political and social stability as it was confronted with the blockade and embargo of western countries and also forced to resist the USA's aggression and aid Korea. In 1956, the Three Great Remoulds concluded, namely the socialist transformation of agriculture, handicraft industry and capitalist industry and commerce. It was pointed out in the resolution of the Eighth National Congress of the CPC that the age of fierce class struggle ended and the main domestic contradiction in the future was the contradiction between backward productivity and advanced productive relations. The priority of the work should be transferred to economic construction. However, such line was quickly drowned by the left-deviated line and thought trend which “takes class struggle as the guiding principle”. The target of “class struggle” quickly shifted from outside to inside the people, then to inside the CPC, and eventually to its kernel leadership from 1966 to 1976, the start of which was symbolized by the big-character poster “Bombard the Command”. It needed to be mentioned that the so-called “capitalist rightists” were the first group of people who suffered the impact when the target of “taking class struggle as the guiding principle” turned to inside the people in the middle the 1950s. These people were mainly non-CPC personages and scholars. And naturally, the economists who studied abroad and the western economics that they studied could not evade such disaster.

The three reasons above determined the historical fate of western economics that it was always criticized and abandoned in the 30 years after the foundation of the PRC. In early the 1950s, the criticism mainly targeted various western economic theories, such as Keynesianism and Malthusianism. And the scholars in China who were accomplished in the study of western economics only proposed “learning afresh”, namely “self-criticism”. However, after the start of the Anti-Rightist Movement, people implemented the idea of “taking class struggle as the guiding principle” and targeted the criticism on the people. A group of economists who studied overseas in their early years and had great academic accomplishment were labelled rightists in the

movement. Many people were forced to accept criticism under high political pressure and suffered unfair treatment or even personal attacks. A very representative case was the criticism on “Some Opinions on the Work of Economic Science at Present” (or the “Opinion Letter” for short) written by the six professors of Chen Zhenhan, Xu Yu’nan, Luo Zhiru, Gu Chunfan, Wu Baosan and Ning Jiafeng.

These six scholars were all renowned economists who studied in the USA and the UK in their early years and returned to and worked in China for many years. Among them, Gu Chunfan and Ning Jiafeng served in government organs, Wu Baosan worked at the then Institute of Economics of the Chinese Academy of Sciences, and the rest three were deeply-respected and famous scholars of the Peking University. Although they were not communists, their words and deeds in their whole life showed that they loved the motherland and supported the CPC. They actively studied Marxism and Leninism, worked enthusiastically at their positions, and wanted to contribute their learning to the economic construction undertakings in the motherland. They felt greatly encouraged by the new line centering round economic construction formulated at the Eighth CPC National Congress. They spoke frankly and sincerely when invited to help the CPC to rectify its working style. And the most important one among these opinions was that people should not overlook the positive role of the theories of western economics to economic construction work. They bravely wrote this “Opinion Letter”³ about economics and called for changing the negative attitude toward western economics.

The basic view in the “Opinion Letter” was that people needed to resolve issues in two aspects in order to bring into play the “guiding role” of the economic science in Marxism and Leninism in socialist economic construction. On the one hand, workers in economic areas and state economic organs should pay more attention to the role of economic science and overcome the attitude of despising economic science. They should respect objective economic laws in their work and avoid subjectivism and blind action. On the other hand, they should develop the economic science in Marxism and Leninism in the practice of socialist economic construction. They should seriously establish the understanding that China’s economic science still “stay in a very infantile stage” and that it was still very “weak”. Frankly speaking, the issues in the second aspect were more important and arduous. Those involved not only the issue of how to correctly treat classical works in Marxism and Leninism and the experiences and textbooks in the Soviet Union but also the issue of how to correct treat western economics.

The Opinion Letter opposed treating the classical works of Marxism and Leninism with an attitude of dogmatism. It emphasized that the purpose of study laid in “understanding the thoughts, outlooks and methods of classical writers rather than their words”. It showed much disapproval to the phenomenon that the circle of economics depended on using a great amount of quotes from classical works, 50% of them bearing quotations marks and 40% not bearing, to write their articles. It emphasized that people should closely relate to the practice of China’s construction and should not “become accustomed to putting the label of revisionism on any words different

³Chen et al. (1958).

from the texts in classical works". Besides, the Opinion Letter also opposed the practice of copying and replicating everything in the Soviet experiences in economic construction and the Soviet textbooks on economics, which was rather popular at the time.

The Opinion Letter also focused on discussing the issue of how to treat western economics. It used traditional term and called western economics "capitalist economics". But it disapproved of the attitude of constantly criticizing and completely negating toward it and proposed the issue of "critical reception of capitalist economics". Under the circumstance that the circle of theoretical study at the time adopted the attitude of constantly criticizing toward western philosophy and social sciences, including economics, it was truly rare and commendable that the Opinion Letter proposed the issue of "absorption or reception" in addition to criticism. The Opinion Letter also gave examples on the issue of criticizing and absorbing western economics to make further analysis. It said, "For instance, the multiplier theory of Keynes is only a kind of mathematical concept. Can it be used to analysis the effects of our investment? For another instance, the concept of margin is often used in vulgar economics. Does it have some value in practical use as an analytical instrument? In particular, the science of statistics possesses the same important meaning to the scientific study of social phenomena whether it is in capitalist or socialist society. There are many methods and concepts in capitalist statistics, such as sampling theory, normal curve, time series, correlation coefficient, and so on. The authors feel that people can also apply them to analyze our social economic phenomena. But all these are excluded from the area of statistical work so that the statistics taught and learned in China becomes nothing but the four rules of arithmetic and simple average."

It was a scientific attitude to both criticize and absorb western economics, which was exactly the attitude that Chinese people adopted today. As a discipline that reflected and studied capitalist market economy, western economics contained both many things that were not applicable to China's socialist economic construction or its construction of socialist market economy and many things that people could borrow from and absorb. This was because contemporary capitalist and socialist economies both relied on socialized mass production and practiced market economy. There were naturally many related categories and principles between them that people could borrow from and absorb. In fact, classical writers of Marxism and Leninism advocated that people should adopt an attitude of critically inheriting when treating history and culture. They all both criticized and absorbed their theories when treating capitalist economists. Today, absorbing the useful components in western economics already became a consensus of the majority of the circle of economics in China. Moreover, many categories and methods, such as multiplier theory, marginal analysis, sampling theory, normal curve, time series and correlation coefficient, were already employed by the extensive community of the workers in the study and teaching of economics and practical economic work in their own practice. An issue, which seemed to be very easy to understand today, became one that caused great controversy 40 years ago. In addition to the situation that people still did not have adequate practice and understanding at the time, one important reason why western economics

was completely negated was that the planned economy that China practiced and maintained with its best efforts at the time was a kind of modern “natural economy” incompatible to market economy.

The Opinion Letter also mentioned some other issues. Its basic view and thought trend were positive and many opinions were pertinent. Some of them still had referential value today. People should in fact follow the double-hundred policy of letting a hundred flowers blossom and a hundred schools of thought contend when doing things in the academic area. They should allow different views, allow contention and allow correcting mistakes. But at the time, because people implemented the principle of “taking class struggle as the guiding principle”, the Anti-Rightist Movement was launched nationwide in which “rightists” were hunted down everywhere. The Opinion Letter of these six professors became the first target in the circle of economics. In the so-called “criticism”, people raised the issue to a higher plane of principle and two-line struggle and related to political programs unlimitedly. The Opinion Letter, a paper about economics written by the six economists, were said to be an “anti-socialist scientific program”, a “rampant attack” on socialism, the “summoning of the ghost of capitalist economics”, and so on. An academic issue was wrongly treated as a political issue. Before this event, the criticism on western economics was only limited to textual “criticism” on theories. Then after that, the criticism turned to further condemning people in both speech and writing. Some scholars were given various political labels and suffered political prosecution to which they should never become a victim. Such criticism in which untrue charges were made up with easy excuses caused serious mental damage to its victims. Besides, because of political pressure, it drew the extensive community of researchers and teachers and common people into the political movement in which things were related to political programs unlimitedly. In the end, all the people suffered mental damages of different degrees. Such practice that made an academic issue into a political issue caused everybody to regard the study of western economics as a dangerous thing. Thus, western economics truly become oblivious. It was not brought down by criticism but crushed with pressure. This was an example of treating academic issue with a pernicious attitude.

Although the Anti-Rightist Movement caused deep spiritual trauma to the extensive community of the intelligentsia, the intellectuals still had great patriotic enthusiasm and support to the CPC. In particular, some senior economists not only cared about the construction of the state and important issues in national economy but also employed their knowledge and learning to provide proposals and suggestions to the government although they clearly knew the political risks, just like what was described in an ancient poem that read “An aged steed lying by the manger still has the ambition to run for a thousand miles; a heroic champion in his late years will never abandon his lofty aspirations.” Ma Yinchu was a prominent representative of them.

Ma Yinchu was a famous Chinese economist who studied abroad in his early years. He was esteemed by the Chinese people because of his academic accomplishment. During the several decades of the PRC after its foundation, he always worked hard to make progress in political awareness. Because he revealed the corruption

and darkness of the rule of Kuomintang with a dauntless spirit, he was once put into concentration camp by the Kuomintang government during the Chinese People's War of Resistance against Japanese Aggression. After the war ended, he devoted himself to democratic movement under the danger of being assassinated by Kuomintang agents. He was a patriotic democratic personage deeply respected by the Chinese people. Soon after the foundation of the PRC, he was appointed president of the Peking University because of his talent, virtue and prestige. In addition to his heavy work in managing the university, he also earnestly studied important issues in national economy, such as population and comprehensive balance. Each year he would take advantage of the opportunity of the work inspection as a member of the Standing Committee of the National People's Congress to make surveys in factories and rural areas. Population issue was the center of his study and survey. In 1955, Ma Yinchu submitted a written speech entitled "Controlling Population and Its Scientific Research" at the discussion meeting of the Zhejiang Group at the National People's Congress. At the time, people did not realize the importance of this issue. In 1957, he wrote the *New Population Theory* and he made a speech on it at the Fourth Plenary Meeting of the First National People's Congress. His speech won the attention of the central authorities and *People's Daily* published it as one of written speeches of the representatives of the National People Congress on July 5 that year. Soon later, an evil left-deviated trend rose, in which his *New Population Theory* was called "new Malthusianism". And Ma Yinchu was regarded as harmful as Dean Gooderham Acheson, the US Secretary of State whom Ma Zedong had criticized. Then one after another articles of criticism and attack were written against him. An academic issue was turned into a political issue once again.

What on earth were the basic outlooks of the *New Population Theory*⁴? First, Ma Yinchu poignantly proposed in his article the issue that China's population grew too fast. On the basis of the data of the National Population Census in 1953 and the results of his personal inspections in many provinces and municipalities and rural areas from 1953 to 1955, he found that China's annual natural population growth rate was 22.29‰ during the four years from 1954 to 1957, which was much higher than in 1953. Too fast population growth and slow fund accumulation caused deep concern in the mind of Ma Yinchu. He felt that he had to raise the high attention of the people in all China. Second, Ma Yinchu was the person who proposed the issue of population quality earlier in the world. He believed that people should consider the issue of population quantity in association with population quality. He stressed on developing education and raising the standard of knowledge acquisition to improve population quality. He believed that large population was both a kind of "great resource" and a kind of "great burden". He advocated controlling population quantity and improving population quality. Only in this way could people keep its benefits and remove its disadvantages or maintain the great resource and avoid the great burden. Third, he emphasized particularly that too fast population growth would seriously affected national economy. For example, (1) it was impossible to accelerate fund accumulation. (2) It was necessary to expand the planting area of grain and reduce the planting

⁴Ma (1998a).

area of economic crops and to reduce the supply of industrial raw materials and thus postpone the advancement in industrialization. (3) it would weaken the foundation of industrialization and affect the research and development in science and technology. In summary, controlling population was absolutely not an optional policy but an indispensable one. It already became an urgent task that allowed no delay and omission. In order to effectively control population growth, Ma Yinchu proposed three major measures. First, people should strengthen relevant publicity work and break the feudal thought of "having a baby as early as possible in life". Second, people should revise marriage law and encourage late marriage. And third, people should publicize artificial contraception and oppose artificial abortion to avoid killing lives.

In order that more people could understand and accept his view, Ma Yinchu solemnly clarified in his paper that "my population theory is different from the Malthusian ones in position. His followers advocate reducing population by cruel means such as plague, disease and war. ... I do not advocate reducing population. Rather I support improving the labor productivity of the working people so as to improve the standard of their material and cultural life."

The points in the above were the basic views and suggestions that Ma Yinchu formulated in his paper. These views were correct in theory and these suggestions were practical and feasible. Over 40 years ago, he pointed out poignantly that people needed to control population growth and it was truly a visionary basic state policy. Then how could these views and suggestions be wrong? Most critical articles were simply limited to using the so-called "man's hand theory" to criticize Ma Yinchu's "population theory". It was said that "man is not only consumer but also producer" just like that man had not only "mouth" but also "hands". They blamed that Ma Yinchu only "sees mouth and does not see hands". With such simplistic exaggeration of the "man's hand theory", they could easily draw the wrong conclusion that the greater the population, the better. In fact, such criticism was untenable because man could not just rely on his hands although he was truly producer. There also needed to be land, including other natural resources, capital and equipment. Exploiting nature and making equipment both needed the increase of accumulation. Too fast population would result in growing consumption and weaken accumulation so that the production capacity of the people themselves was weakened. Ma Yinchu felt concerned about too fast population growth and called for countermeasures mainly because of such a point. His sincere heart with his love of the country and the people could be seen in his article. But truth, fact and conscience were all drowned in the left-deviation thought trend at the time. One after another articles attacking him brought one after another political labels, such as "opposing the party and socialism", "always opposing Marxism", "always serving imperialism, feudalism and capitalism", and "practically attacking the party and socialism under the pretext of academic research". All these were poured on Ma Yinchu.

However, Ma Yinchu not only found the truth but also had the tough spirit to adhere to the truth and not to yield to power. Although the criticism on his theory lasted for several years and although he knew a "theoretical authority", namely Kang Sheng, in the superior authorities conspired the attack on him, he would not step back to abandon the truth that he found. He indicated in a "statement" made in November

1959 that “I am nearly 80 years old and I know I will not win when I fight them all single-handed. But I still will stand out and fight them alone until the moment I fall. I will not surrender to those critics who only try to suppress me with power and not to convince me with reasoning.”⁵ He also expressed his pity for not accepting the advice of a good friend in his statement. His friend saved him by all means when he suffered afflictions in Chongqing before the foundation of the PRC. When the PRC was founded, he responded to the invitation of this friend and left Hong Kong to North China to participate in political affairs. But this time, the friend sincerely told him to make an apology to end the fight. But Ma Yinchu said, although he was “very grateful” and “always bear in mind” the care of his old friend for all the time, “I have not accepted his sincere advice and I feel greatly sorry because I am in the debate of an academic issue this time and I am very confident in my theory. I cannot stop adhering to it. I have to defend for the honor of academic study. So I have to refuse to apologize.” Soon after, this important article of programmatic value to state affairs was suppressed after several years of attack.

When Ma Yinchu’s correct view was under unreasonable political attack, his great virtue and prestige still won several chances to defend for himself when he worked at the important office of the president of the Peking University. This was hardly possible for those so-called “capitalist rightists” and “capitalist academic authorities”. It should be pointed out that most of these “rightists”, “reactionary authorities” and “capitalist scholars” who suffered political criticism still emphasized that people should apply some theories in western economics under the guidance of Marxist and Leninist thoughts to serve China’s economic construction. Nonetheless, they were still criticized and the majority of them were given no chance to defend themselves. All these indicated that western economics was always in the wretched situation of total negation during nearly 30 years after the foundation of the PRC.

Some changes occurred in the early 1960s. In 1961, the Propaganda Department of the CPC Central Committee and the Ministry of Education organized the compilation of the textbooks on liberal arts for the teachers and students in the specialized fields of liberal arts and law, including the specialized fields of economics and finance and economics, in various colleges and universities nationwide. Before this, Soviet textbooks or the textbooks compiled by Soviet experts sent to China were used in the teaching of all specialized fields of liberal arts and law, including those of economics and finance and economics, in China. And nobody was permitted to say anything to oppose this. Now the Propaganda Department of the CPC Central Committee and the Ministry of Education needed to organize Chinese experts and scholars to compile their own textbooks for the specialized fields of liberal arts and law. Textbooks were also required to be compiled about various contemporary schools and theories in economics and other disciplines in western countries for the purpose of broadening the view of the teachers and students in higher education institutions. At the time, specific instructions were given about how to treat western economics. They needed to criticize and introduce it and do it in an “objective” and “systematic” manner. The two authorities commanded that textbooks needed to be compiled with

⁵Ma (1998b).

a tight schedule and Zhou Yang, vice director of the Propaganda Department of the CPC Central Committee, took in charge of the compilation of all textbooks in the specialized fields of liberal arts and law.

Why such a situation occurred at the time? The author believed that the political movements of the Three Red Banners, namely the General Line for Socialist Construction, the People's Communes, which was raised by left-deviated thoughts and lines, all failed, on the one hand. Then there were three years of natural disasters. The "people's commune" movement ended up in failure for the time being and the public dining halls in the countryside were shut down. Some rural areas started to spontaneously implement the system of "fixing farming output quotas by household". Left-deviated thoughts and lines had setbacks for the moment. On the other hand, the party and state relations between China and the Soviet Union broke. The Soviet Union stopped its aid and withdrew its experts. The policy of "completely following the Soviet Union" and "taking the Soviet Union as teacher" would not work any longer. China had to find its own road in the future and it was necessary to know more about the outside world other than the Soviet Union. Under such a situation, the Propaganda Department of the CPC Central Committee and the Ministry of Education organized some Chinese scholars to work on the compilation of various textbooks in liberal arts and required them to compile textbooks on western economics. These authorities also instructed that people needed to both criticize and understand and borrow from western economics. And they emphatically required that introduction needed to be both objective and systematic so that people could learn about the true status of western economic theories. In order to ease the editors' concerns, they emphasized in the instruction that the compilers were responsible for academic quality while organizers for political quality. Compilers should take the responsibility of making the introduction objective and systematic. They did not need to worry about whether criticism was adequate and thus did not need to have concerns about it. The instructions above indicated that the authorities already started to let the extensive community of young students learn about the economic conditions and theories of the outside world and, in particular, of western countries. This was the first time that there was some easing in the attitude of total negation toward western economics which was adopted for more than ten years after the foundation of the PRC.

Two textbooks on western economics were compiled under the organization at the time. One was about the history of western economics, a textbook entitled *The History of the Theories of Economics*. The other was about contemporary western economics, entitled *Main Schools in Contemporary Capitalist Economics*. The first one explained the history of economic theories over a large time span from the ancient Greco-Roman times to the time of the Keynesian economic theory. Its diverse numerous contents included both ancient Greco-Roman economic thoughts and the economic thoughts in utopian socialism and those of Marx, Engels and Lenin. In addition to these, a considerable part of the book introduced the history of capitalist economic theories. It was edited by Lu Youzhang and Li Zongzheng, two professors of the Renmin University of China. A number of professors from the Renmin University of China, the Peking University, the Nankai University and the Jilin University participated in the compilation of the book. *The History of Political Economic History* written by

D. I. Rozenberg and other relevant Soviet textbooks were the main references for the compilation of the book. Another book *Main Schools in Contemporary Capitalist Economics* was compiled with Prof. Luo Zhiru from the Peking University as the director of the editorial group and Wu Baosan from the Institute of Economics in the Chinese Academy of Sciences and Prof. Gao Hongye from the Renmin University of China as the vice directors. A number of scholars from the Peking University, the Renmin University of China and the Institute of Economics of the Chinese Academy of Sciences participated in the compilation. The work had altogether five books: (1) Keynesianism, (2) monopoly economics, (3) welfare economics, (4) econometrics, (5) “people’s capitalism”. Most references in the compilation of this book were works of Soviet scholars such as I. G. Bliumin. These five books were successively published by The Commercial Press from 1962 to 1965. *The History of the Theories of Economics Vol. 1* was published by the People’s Publishing House in 1964. And then its publishing was disrupted. The second volume of the book was not published until 1982.

Although Zhou Yang made the instruction that people needed to make “objective and systematic” introduction to western economics, the leaders and the compilers were still influenced largely by the ideological restrictions of left deviation under the general environment that the “left-deviated” thought trend took up the dominant status. And most of the references used in the compilation of the textbooks of western economics at the time were the works popular in the Soviet Union, such as those of D. I. Rozenberg and I. G. Bliumin. As a result, the author felt deeply as one of the compilers of the textbook *Main Schools in Contemporary Capitalist Economics* that people still basically adopted an attitude of criticizing and negating toward western economics although the compilers made great efforts to implement the instruction of “making objective and systematic introduction” under the condition of ideology at the time. Nonetheless, the textbooks still made more adequate and systematic introduction on western economics than in the past. And the attitude toward western economics showed improvement to certain extent.

In addition to compiling and publishing textbooks, another important channel for introducing western economics was translating and publishing the original works of western economics. The organizations that undertook the work in this area mainly included The Commercial Press, SDX Joint Publishing Company, People’s Publishing House, and Shanghai People’s Publishing House. The Commercial Press published works on western economics in a larger number and a more systematic manner. From the 1950s, The Commercial Press organized, translated and published in a planned manner the works as the three sources of Marxism, which included the classical economics works in the UK and France that Marx praised highly, so that the readers in China could learn more about these three sources. A critical Chinese “Foreword” had to be attached when these works were published at the time so as to provide guidance to the extensive community of the readers and to prevent them from the poisoning of capitalist thought. Nonetheless, people still had the possibility to know about western economic theory. From 1966 to 1976, the work of translating western academic works was suspended and this channel to introduce western economics was blocked.

In summary, China gave the epithet of “capitalist vulgar economics” to western economics and, in particular, the western economics from the 19th century due to the dominance of left-deviated dogmatism during nearly 30 years from the foundation of the PRC to before the reform and opening up. People believed that it was anti-scientific in theory and reactionary in politics as a defensive economics and it would become increasingly reactionary. So they adopted an attitude of total negation and comprehensive criticism toward it. Moreover, they took the criticism on western economic theory as a means of political prosecution inside the people in China. In the end, rigid and uninformed ideology was formed in the circle of theoretical economic study and the area of teaching of economics. Dogmatism became increasingly serious, theoretical study increasingly detached from reality, and the teaching of economics was even worse. The part on capitalism in political economics became more and more incompetent to explain the economy development of contemporary capitalist world while the part on socialism was more and more like a collection of the financial and economic policies and decrees of the state. The study and teaching of economics in China fell into crisis.

A particular serious problem was that such left-deviated attitude of total negation that China adopted toward western economics resulted in rigid policy guiding thought so that people overlooked or even violated economic principles. This caused serious damage to China’s economic construction, which could be seen at least in the following three aspects.

First, policy guiding thoughts became rigid under the long dominance of left-deviated and dogmatic thought so that people’s thought was tightly fixed on planned economy system. Any thought trend and specific measure that bore the trace of market was harshly criticized in theory and ruthlessly stifled or cancelled in practice. The trend of “being rather leftist than rightist” became increasingly stronger and caused increasing damage to economic development. For example, profit motive, competition, cost-benefit concept, principle of economic accounting, personal economic interest and independent status of enterprise, these mechanisms and categories of market economy were criticized and abandoned as “the stuff of capitalism”. As a result, the “communism fad”, characterized by “equalitarianism and indiscriminate transfer of resources” and “making calculations on politics and not on economy”, occurred during the period of 1958-1960. And the “subjectivist mania”, characterized by “The fields would have any amount of yields as long as you are bold enough to claim it”, “catching up and surpassing the UK and the USA” and “entering communism at a running pace”, also occurred. The “equalitarian fad”, which criticized the principle of distribution according to performance, occurred from 1966 to 1976 and the movement of “cutting capitalist tails” was launched, in which the “private plots” of the members of the people’s communes in the countryside were confiscated. All these seriously damaged industrial and agricultural production, natural resources and the production initiative of the extensive community of workers. In the end, national economy reached the brink of collapse in the middle of 1970s.

In addition, the bad consequence of rigidified policy guiding thought was also manifested in the situation that a wall to “protect” socialism was built in people’s minds through criticizing western economics. It completely isolated them from seeing the mechanisms and categories inherent to market economy. In fact, this wall prevented China from realizing the transition from planned economy into market economy at an earlier moment. This meant huge economic or material loss and, most importantly, the loss of time, which was undoubtedly a kind of bigger loss.

Second, it needed to be mentioned that China totally negated and thoroughly discarded the System of National Accounts (SNA), recommended by the United Nations and generally adopted by western countries in the 30 years after the foundation of the PRC, regarding it as a component of western economics, and followed the System of Material Product Balances (MPS) adopted later by the Soviet Union at the time. One important difference between these two different accounting systems was that MPS only included the worker’s income and social net income in material production departments in national income, because of the belief that only the labor in material production department could become the source of income and the labor of non-material production departments did not create value, while SNA included the incomes of both the material and non-material production departments into national income. It should also be mentioned that Wu Baosan, a late renowned Chinese economist, was an expert in the issue of “national income” in China who employed the SNA to study the issue of national income of old China before the liberation. After the foundation of the PRC, the theory and methodology about SNA was criticized in theory and abandoned in practical work. As a result, there were no conditions for Wu Baosan to continue his study. But the party who suffered true loss was the country because the adoption of MPS and the abandonment of SNA resulted in the overlooking of the development of non-material production departments in China. The consequence was that the development of the tertiary industry and, particularly, service industry in China lagged behind not only many developed countries but also some developing countries for a long period of time. This was a very hard and painful lesson.

Third, it was also necessary to mention the very serious consequence brought about by the wrong criticism of the New Population Theory of Ma Yinchu. If his articles and suggestions were not treated brutally, China would start carefully practicing population planning in the middle of the 1950s. At present, China’s population might be controlled at the level of about 900 million. And the pressures in population, employment, resource scarcity, and environment protection in China would ease greatly. China would have more economic accumulations and faster economic growth. As some said, the wrong criticism of a person caused several hundred million births and brought hardship to more than a billion people.

2 The More Than 30 Years After the Beginning of the Reform and Opening up and China's Socialist Market Economy

During 30 years from the beginning of the reform and opening up, China implemented the outlook of scientific development under the guidance of the Deng Xiaoping theory and the thought of "Three Represents" and advanced in the historic long March of exploring and building socialist market economy. The CPC Central Committee proposed the historical task of building socialist market economic system in 1992. The period from the proposal of the reform and opening up in 1979 to 1992 belonged to the stage of exploring market orientation of the economic system reform. The period from 1992 to the present belonged to the stage of building socialist market economic system. In both the exploration and construction periods of socialist market economy, western economics exerted important influence on the workers in economic theories and practical economic work in China and played an important referential role. In order to expound the issue, it was necessary to clarify what were the characteristics of socialist market economic system. Then people could further understand why there were the necessity and possibility to draw from western economics in the process of exploring and building socialist market economic system and how such practice of drawing from was carried out.

China's socialist market economy should be an important component of the socialist road with Chinese characteristics. What were its characteristics in comparison with the capitalist market economy in the world?

I. The Most Essential Characteristic of Socialist Market Economy: The Combination between Basic Socialist System and Market Economy

"People should combine basic socialist system with the development of market economy." This was proposed by Comrade Hu Jintao when he discussed the "Ten Major Combines" about the direction and road of the reform and opening up as a new great revolution in the report of the 17th CPC National Congress. Then what was "basic socialist system" as an economic system? It did not mean the absolute dominance of public ownership system any longer but was a "basic economic system in which public ownership system is the main part and multiple ownership system economies develop jointly". The question here was what the kernel part of such basic economic system of socialism was, how it could combine with market economy, and what the difficult point of the combination was.

The kernel part of such "basic economic system in which public ownership system is the main part and multiple ownership system economies develop jointly" was that "public ownership system is the main part". Without this kernel part, the basic economic system of socialism would not belong to socialism any longer. When there was only the combination between other non-public ownership system economies and market economy, it would become capitalist market economy. It was not difficult at all to combine non-public ownership system economics with market economy in economic system because market economy was always built on the foundation of

capitalist private ownership system in history. The biggest difficulty in combining basic economic system in socialism with market economy was the combination between its kernel part, namely public ownership system economy as the main part of economy, and market economy. In order to realize such combination, it was necessary to establish the always indispensable microeconomic foundation of market economy on the basis of public ownership economy. And this would be a historic and pioneering undertaking unprecedented in the time from the remote human history.

It was said in economics that the birth, growth and development of market economy was always merged in capitalist private ownership economy. The history of the theories of economics also showed that, although western economics and traditional Marxist political economics had opposite positions and different arguments, they had one thing in common: Both negated the possibility of the combination between market economy and socialist public ownership system. And both regarded this point as a “credo”. In 1930s, a major debate on socialism occurred in the circle of western economics and lasted for several years. Ludwig von Mises and Friedrich August von Hayek, main representatives in the circle of western economics who both became laureates of the Nobel Prize in economics later, asserted that only private enterprises could form the microeconomic foundation necessary for market economy and that it was impossible for socialist public ownership system to combine with market economy. People could only implement planned economy in such ownership system, which was a “road toward slavery”. On the other side, traditional Marxist political economics also asserted that market economy was inherent to capitalist private ownership system and it was completely incompatible with socialist public ownership system. It regarded market economy as “flood” and “monster”. In China, Comrade Deng Xiaoping took a broad and long-term view and liberated his thought. He summarized the experiences and lessons in the construction of socialism in China and abroad and resolutely decided to take the policy of reform and opening up. In the early 1990s, he proposed the basic line of building socialist market economy, with which he crushed the same fetters put on ideology from the left and right sides in traditional Marxism and western economics, namely the so-called “credo” that market economy was incompatible with socialist public ownership system. The CPC central leadership with Deng Xiaoping as the center led more than one billion Chinese people to make explorations on the lands of an ancient civilization, “crossing the river by feeling the stones”. They started the historic long March of combining socialist public ownership system with market economy, which was a great system innovation unprecedented in all the ages from the ancient times.

The biggest difficulty to establish socialist market economy was to maintain the kernel part of this basic economic system, namely taking public ownership system as the main part, and, at the same time, establish a microeconomic foundation indispensable for building market economy on the basis of public ownership system. How could it be like this?

Socialist countries were different from western countries. In western countries, enterprises were in private hands. The government only possessed the function of “public service” as a political entity. In China, the government was not just a political entity. It also performed the function of an economic entity with the entrustment of

the state and possessed a large group of state-owned enterprises. The enterprises under state ownership system, namely state-owned enterprises, were in fact under government ownership system. The government had the two identities and functions of “political entity” and “economic entity”. China learned such system from the former Soviet Union in the early period of the PRC after its foundation. The government implemented government ownership system in state-owned enterprises in the name of the state and such system dominated nationwide. The government exercised control not only over non-profit and non-competitive state-owned enterprises but also over profit-making and competitive industries that originally should be controlled by economic entities and operated according to the profit-making principle. In the end, economy became subordinate to politics. The profit-making principle or the cost-benefit principle was replaced by fiscal principles of “appropriation free of charge” and “payment free of charge”. Market mechanism and economic instruments were replaced by planning and administrative instruments. Everybody tried to take from the “big rice pot” of fiscal budget. Enterprises did not have independent operation activities and economic benefits and thus lost their economic dynamism. It was impossible to form the microeconomic foundation necessary for market economy with these enterprises. Whether the basic system of socialism could be combined with market economy mainly depended on whether the “microeconomic foundation” needed by market economy could be established on the basis of public ownership system. This was the “point of combination” of the basic economic system of socialism and market economy.

Under the guidance of Deng Xiaoping theory, the Chinese people found the “point of combination” in the practice of reform, namely building state-owned enterprises into independent producers and operators through state-owned enterprise reform, so as to form the “microeconomic foundation” of market economy on the basis of public ownership system. Besides, they also found a workable approach in their exploration, namely establishing “clearly-defined property rights, clearly-determined rights and obligations, separation of government function from enterprise management, and scientific management”. Later it was further specified that “shareholding system” should be a “form of realization” of public ownership system. And modern enterprise system could be established on the foundation of public ownership system according to such an idea so that the enterprises could possess the functions and mechanisms to realize “independent operation, assumption of sole responsibility for its own profit or loss, self-development and self-discipline”. Here, “clearly-defined property rights and separation of government function from enterprise management” were of crucial meaning. It not only directly concerned whether property rights could be clearly-defined but also concerned whether state-owned enterprises could truly enjoy the status of independent and autonomous operation and also whether the government could truly and completely transform from a government of “economic construction type” to one of “public service type”. As a result, the documents of the CPC took “separating administration from enterprise management, separating administration from state-owned property management, and separating administrative units from institution units” as a priority in economic reform within a long period of time. But in reality, there were still various obstructions although China made great efforts in

this area. For example, some competent economic departments in the government were changed into large state-owned group companies or controlling companies. The course of the reform indicated that the system origin of this economic work priority still laid in the situation that the government owned dual identities and functions. As people described, the disease was in enterprises but the source was in the government.⁶ The reform of the 17th CPC National Congress placed government system reform on a prominent position and stressed “building service-typed government”. This still needed people to make arduous efforts to fulfill.

II. The Second Characteristic of Socialist Market Economy in China Was That Its Establishment and Growth Went Through the Transition Period of China in Which Three Kinds of Transitions Interwove with Each Other

The establishment and development of capitalist market economy lasted several centuries in western countries. And these countries completed industrialization and urbanization over a century ago so that their capitalist market economy became mature and developed. China started to grow as a part of the world’s emerging market economy from the beginning of the reform and opening up over 30 years ago. The CPC central leadership centering round Deng Xiaoping pushed Chinese economy into a complicated and difficult transition period with the reform and opening up over 30 years ago. The concentrated manifestation of the complexity and difficulty of this “transition period” was that it consisted of three interweaving “transitions”. The first one was the transition from planned economy to market economy in economic system. The second one was the transition from “dual economy” to modernized economy in economic structure. And the third one was the transition from extensive growth to intensive growth in the mode of growth and, in particular, to the sustained and inclusive type of growth based on the outlook of scientific development. China had to achieve what western countries had spent several centuries to fulfill in the past. It would not be hard to imagine the great complexity and difficulty of this task. Take unemployment and employment as an example. Western developed countries completed industrialization and urbanization over one century ago. Rural population only accounted for 3–5% of their national population, national unemployment rate was about 5–8%, and they had good social security facilities. China started with “dual economy”, in which rural population accounted for over 60% of national population and 100–200 million rural residual labor population was in the status of disguised unemployment. In over 20 years in the past, 150 million migrant workers went into the cities from the countryside. Although they greatly promoted urban economic development, they also caused larger employment pressure in the city. Their employment sometimes was in an unstable status. This group of nearly 200 million migrant workers, which was in a number more than the population of many countries, was the largest disadvantaged group. The population group of migrant workers emerged with the start of transition and would disappear with the completion of transition. And it would be the main part of the population on the focus of “employment policy” within the several decades of transition. This huge population group was never seen in the

⁶See Huang (2005a).

history of western countries and western economics never studied it. In addition, state-owned and collective enterprises started to lay off workers as enterprise reform was pushed forward. According to the statistics from 1990 to 2002, the employed population in these two kinds of enterprises reduced by 56.1 million. In recent years, labor shortage occurred for some time in China's coastal areas. But this mostly was caused by the problem that low wages and high housing rent forced some workers to go to inland China or fall into disguised unemployment. Moreover, six to seven million college students graduated each year in China, which caused the employment difficulty of college graduates. In the end, the unemployment or employment issue that China faced during the transition period was far more serious than the western developed countries at present. Although China's urban registered unemployment rate was not high, the situation in reality was not negligible and the problem would become more discouraging within certain period in the future. The complicated situation in which three "transitions" interwove with each other caused China to develop with both sustained high growth and frequent high unemployment or low employment. Promoting employment would be a strategic policy during the transition period in China. Because of this policy, it was specifically proposed in the compendium of the "Twelfth Five Year Plan" that people needed to implement employment priority strategy. This was a strategy policy proposed with the reality in China as the start point.

III. The Government's Leading Role in Economic Development and Reform

As an emerging market economy, China belonged to "catch-up economy" just like other developing countries in East Asia, all of which were also emerging market economies. In his book *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*, famous Japanese economist Masahiko Aoki formulated that the government played an important leading role in the economic development of the developing countries in East Asia. In its research report *The East Asian Miracle* published in 1993, the World Bank attributed the high growth of East Asian economy to the flexibility and leadership of the economic policies of the government.⁷

The history of developed countries showed that the development from commodity market, monetary market, bond market, securities market and futures market lasted for more than 200 years. Each market, mechanism and system instrument did not emerge because of some ingenious design. Rather, it came from the agreements formed spontaneously and jointly performed by millions of people in economic practice on the basis of the needs in their activities as the market economy grew. As a developing country, China needed to complete within a shortage period of several decades what developed countries had finished within more than 200 years. And the developments in economic globalization did not allow China to first establish a relatively mature and standard market economy and then integrate with the world's economy. In order to achieve "catch-up", the government played a leading role at this point and led system innovation. Before the process of economic monetization was

⁷The World Bank (1993).

fully completed, China started to introduce securities, bonds and certificates. Before the systems for securities, bonds and certificates were fully grown and even before relevant laws and regulations for their operations were complete, the market of futures and derivatives emerged. All these almost appeared simultaneously within a short period of more than a decade or several decades. So these developments created such a situation that various market organization forms, mechanisms and system instruments were “immature” or “half mature” to different extents as China pushed forward its own economic development and got in line with the world’s economy. As the Chinese people see it, China should have everything in the market forms, mechanisms and system instruments of the mature market economy of developed countries. China should first introduce them and cultivate them in the practice of operation even though conditions were not ripe for the time being. This was like that a group of hungry people raced to eat half-cooked food before the cooking was finished. In the end, they had to eat and wait for the dishes to be cooked while the cooking was in process. As a result, the problems of incoordination, friction and disjunction often occurred to various market organization forms, mechanisms and system instruments, which constituted the inherent weakness of such “catch-up” economy. Such weakness was hard to avoid or even inevitable. It determined the necessity to carrying out coordination at various levels and in various aspects to address various areas with incoordination, friction and disjunction in the processes of the transition of Chinese economy and of the cultivation and growth of socialist market. As Comrade Hu Jintao pointed out in the report of the Seventeenth CPC National Congress, “the primary essence of the outlook of scientific development is development, its kernel is people-orientedness, its basic requirement is comprehensive coordination and sustainability, and its fundamental approach is overall planning and all-round consideration”.

The main characteristics of socialist market economy in the above and, particularly, the fundamental and intrinsic characteristic that public ownership system was the main part and multiple ownership system economies developed jointly, distinguished it from modern capitalist market economy. Modern capitalist market economy was built on the foundation of capitalist private ownership system and it experienced the development stage of *laissez-faire* capitalism of more than one century. But because of the basic contradiction between socialized production and capitalist private ownership, modern capitalist market economy was forced to combine with state intervention from 1930s to form state capitalism and establish modern developed and mature market economy. Modern western economics, both macroeconomics and microeconomics, took modern capitalist market economic system as the object of study. When compared, socialist and capitalist market economic systems were different in economic structure. The former took socialist public ownership system as the main part while the latter was built on the foundation of capitalist private ownership system. But the two were related as far as market economic system was concerned. The categories, principles, mechanisms and relevant rules, laws and regulations in them were the same or related. Therefore, it was both possible and necessary for China to borrow from the experiences and lessons of developed and mature western market economy and relevant economic theories in the

process of building socialist market economy. As a matter of fact, Chinese economists did endeavor to and actually borrowed many things useful to China from western economics during over 30 years from the beginning of the reform and opening up.

3 The Dissemination and Introduction of Western Economics in China Since the Reform and Opening up

The Third Plenary Session of the Eleventh CPC Central Committee held in December 1978 implemented the guideline of “liberating the thought, seeking truth from facts, and looking ahead in unity” proposed by Deng Xiaoping and played a role of enlightening the benighted. Chinese people started to rethink the future and destiny of the motherland. And the issue of distinguishing and understanding western economics once again also started to be put into their agenda.

The Third Plenary Session of the Eleventh CPC Central Committee made the clarion call for the “reform and opening up”. If people wanted to implement the principle of “taking economic construction as the central task”, then it was necessary to study objective economic principles with China’s economic conditions in reality as the start point and to borrow from foreign practical experiences and economic theories. Thus a question was raised naturally whether there were things in western economic system and western economics for the Chinese people to borrow and utilize? And was it right that people totally negated western economics with a “political baton” under the dominance of left-deviated thought and line in the past. Should people distinguish and understand western economics once again at present? The ideological line of “liberating the thought and seeking truth from facts” at the Third Plenary Session of the Eleventh CPC Central Committee changed the situation quietly like a drizzle in spring and prepared the ideological and political conditions for re-studying western economics and treat it scientifically. Thus the “Society of the Research of Foreign Economic Theories” was founded in response to the proper time and conditions. During May 1979, 17 scholars who studied western economics and history of economic theories led by Chen Daisun, a late professor of the Peking University, gathered in Hangzhou to discuss the issues on western economics. They felt deeply that people had to discard the practice of taking a left-deviated attitude of total negation toward western economics in the past. They also believed that there were things that Chinese people could borrow and utilize in it. And whether they wanted to “take” or “drop”, they had to study and understand it comprehensively and objectively.

The first activity after the foundation of the “Society of the Research of Foreign Economic Theories” was to hold lectures on foreign economic theories. At the time, the Society organized several dozens of teachers and researchers in this area and made relatively systematic and analytical introduction on different schools and views of the economics in western countries. The purpose of the activities was to promote the liberation of thought so that people could have a relatively systematic, general

and initial understanding on foreign economics and absorb useful things from it. These lectures on “foreign economics” started from 1980 and lasted for about one year. All the lecture notes were published in four books by the Chinese Academy of Social Sciences. Although the scholars who gave these lectures still had uncertainties in different degrees in the mind, caused by the left-deviated movements in the past several decades, all of them made great efforts in the new direction and achieved positive effects. These activities played an enlightening role to certain extent in China where western economics were blocked, confined and stifled for several decades. They were helpful for making ideological and theoretical preparations for the economic system reform in the future.

In early 1980s, the Society of the Research of Foreign Economic Theories started to disseminate and introduce the doctrines and theories of foreign economics for a very short period. Soon after the work of disseminating and introducing western economics fully unfolded, encouraged and driven by the policies of “reform and opening up” and “liberating thought and seeking truth from facts”. Such work mainly started and carried out through three aspects or three channels for over 30 years.

I. Courses in Higher Education

The extensive community of workers in practical and theoretical economic work seldom touched or learned western economics before the reform and opening up. And the undertakings in the reform and opening up required that people borrow from useful foreign theories and models. So in the early period of the reform and opening up, the mission of introducing western economics were basically put on the shoulders of some scholars who engaged in the study of western economics and history of economic theories in higher education institutions and a small number of research institutions. Although these scholars was put under very large political pressure and hurt by left-deviated line, they still resolutely assumed this important responsibility. The Society of the Research of Foreign Economic Theories organized and established the lectures on western economics and published four books. In addition to these efforts, a small number of textbooks of higher standard were published at the time, such as *Macroeconomics and Microeconomics* co-authored by Zhang Peigang and Li Yining and published by the People’s Publishing House in 1980, *Contemporary Western Economic Theories* co-authored by Liu Diyuan and Tan Congtai and published by Wuhan University Press in 1983, *Main Schools of Contemporary Capitalist Economics* co-authored by Hu Daiguang and Li Yining and published by The Commercial Press in 1982, and *A Criticism on Keynes’ Principle of Effective Demand and His Theory of Employment Multiplier* authored by Fan Hong and published by Sichuan People’s Publishing House in 1982. These works also included *A Review of Western Economic Thought Trend—On the Economics of Paul A. Samuelson* published by The Commercial Press in 1984, *Contemporary Western Economics Vol. I&II* edited by Song Chengxian and published by Fudan University Press in 1988, *Modern Economics* co-authored by Gao Hongye and Wu Yifeng, *Contemporary Western Economics Vol. I&II* co-authored by Luo Zhiru, Fan Jiayang, Li Yining and Hu Daiguang and published by Peking University Press in 1989,

New Western Economics edited by Wu Kuigang et al. and published by Shanghai People's Publishing House in 1989, and so on. Many higher education institutions also published some of textbooks of this kind successively. From early 1980s, such a group of senior scholars started to introduce western economics in China through these works and lectures and, at the same time, cultivated a large number of young students and youth economic workers. Although some people among these senior scholars still had the ideological imprint or influence of left deviation in their mind in different degrees, they opened up for a large number of outstanding students a window to look into another world and their work played an enlightening role.

It was particularly worth mentioning that many higher education institutions spontaneously and independently provided general courses introducing western economics in the first half of 1980s and the Ministry of Education permitted from the second half of 1980s that higher education institutions officially provided courses on the basic theories on macroeconomics, microeconomics and other courses of this kind, which belonged to western economics. At the same time, various specialized fields on finance and economics in higher education all used textbooks on the basic theories in western countries in their respective specialized areas. Such a practice was adopted not for the purpose of meeting the curiosity of young students but because of the fact that what's formulated in western economics were after all the structures, mechanisms and operational rules of a mature and developed market economy. When the students mastered such knowledge, they could better adapt to the demand of the development of China's socialist market economy and thus had more job opportunities.

II. Efforts of the Publishing Circle

The publishing circle also did a large amount of work in introducing western economics. The Commercial Press translated and published the representative works of classical economics in the West since 17th century before 1966. After the reform and opening up, it published a large number of important works on contemporary western economics, such as *Economics* written by Paul A. Samuelson and *Towards a Dynamic Economics* written by Roy Forbes Harrod. In the 1980s—the 1990s, China Renmin University Press, Peking University Press, Economic Science Press, China Social Sciences Press and Shanghai People's Publishing House organized, translated and published many important works on western economics, such as *The New Palgrave: A Dictionary of Economics*, a masterpiece of the laureates of Nobel Prize in economics, an economic science series including *Economics* written by Joseph E. Stiglitz and so on. From the beginning of the current century, the publishing circle spared no efforts in translating and publishing a large number of important works on western economics, such as *Macroeconomics* authored by Rudiger Dornbusch and published by China Renmin University Press in 2002, *A Handbook of Economics* including the representatives works in nine branches such as monetary economics and energy economics and published by Economic Science Press in 2002, *International Economics: Theory and Policy* authored by Paul R. Krugman and published by China Renmin University Press in 2002, *World Economic Primacy: 1500–1990*

authored by Charles P. Kindleberger and published by The Commercial Press in 2003, *The World Economy: A Millennial Perspective* authored by Angus Maddison and published by Peking University Press in 2003, *Economics* authored by Joseph E. Stiglitz and published by China Renmin University Press in 2005, *Principles of Economics* authored by N. Gregory Mankiw and published by Peking University Press in 2006, *The World Is Flat: A Brief History of the Twenty-First Century* authored by Thomas L. Friedman and published by The Oriental Press in 2006, and *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* authored by Mancur Olson and published by Shanghai People's Publishing House in 2007. It should also be mentioned that the important newspapers and magazines about economics in China, such as *Economic Research Journal*, *Comparative Studies*, *Social Economic System Comparison*, *Economist*, *Economic Perspectives*, *Economics News* and its director Gao Xiaoyong, and *The Economic Observer*, not only translated and introduced the papers of many famous foreign economists but also published a large amounts of research results of many Chinese economists and, in particular, many middle-aged and young scholars achieved when they studied western economics and used it to analyze important economic issues in China. These publications reflected the basic situation in the study and application of western economics in China. And they also reflected, like a mirror, the situation that China's economic science developed constantly in the process of drawing from the research results of modern economics. In addition, it should be highlighted that the privately-run *Economics News* organized overseas special interviews with 12 American laureates of the Nobel Prize in economics and solicited their opinions and suggestions on the issues such as China's population and employment, inflation, enterprise reform, wealth gap and information highway. It published a book entitled *An Account of the Special Interviews with the Laureates of the Nobel Prize in Economics—On Chinese Economy and Economic Development* with the China Planning Publishing House in 1995. The book won high attention in the circle of academic study and exerted extensive influence in China. It should also be highlighted that the World Financial Crisis, triggered by the Subprime Mortgage Crisis in the USA in 2007, deeply exposed the absence of financial supervision in developed countries and, in particular, the USA. And the Obama administration was forced to improve financial supervision system and legislation with great determination. The US government started to formulate new financial supervision act from June 2009. In July 2010, the US Senate and House of Representatives ratified and President Obama signed the *Dodd-Frank Wall Street Reform and Consumer Protection Act* in a length of over 800 pages. As soon as the act was published in the USA, the China Financial Publishing House published its Chinese edition, translated by Dong Yuping and other experts, with a foreword written by Li Yang, vice president of the Chinese Academy of Social Sciences. As Li Yang said in this foreword, the act was "worthwhile for us to earnestly draw from in the reform of the financial supervisory system of our country".

III. Sending Abroad and Inviting Into China

During the 30 years from the beginning of the reform and opening up, China sent several hundred thousand young students abroad to study in western countries. And about 100,000 of them studied economics and finance. Besides, large groups of middle-aged and young teachers in the schools and departments of finance and economics in higher education institutions, workers in the study of economic theories, and workers in economic departments went abroad to pursue further education. It should be mentioned that the Chinese Economists Society cooperated respectively with The Commercial Press and the Shanghai People's Publishing House and published successively at the end of 1980s and in the beginning of 1990s two book series that systematically introduced western economic theories: *Frontier Special Research Topics of Modern Economics*, published by The Commercial Press in 1989, and *Market Economy Popular Reader Series*, published by Shanghai People's Publishing House in 1993. The purpose of publishing these book series was not to peddle "foreign things". The Society said in the foreword to *Frontier Special Research Topics in Modern Economics* that the purpose of publishing the book as a collection of papers was to help readers in China to "first understanding modern economics, then try to apply it to analyze Chinese economic issues, and thus find its function and weakness".⁸ Not only their scientific attitude but also their patriotic hearts are precious! Because they cared about the motherland while they lived in foreign countries. After they completed their educational programs, some of these people stayed and worked abroad but many returned to China and worked in higher education institutions, enterprises and government departments. In particular, more and more of them returned to China and participated in the construction work of the country in various areas from late 1990s. Although these people studied western economics abroad and some of them taught the same discipline in higher education institutions after they returned to China, the majority of them spontaneously and positively tried to understand and study the processes and issues in the development and reform of Chinese economy. Such a trend was advisable and gratifying. In particular, some people had the experience in practical work before they went abroad. After returning to China, they were in a better position to make contribution in theoretical and practical work, starting with the reality of Chinese economy and borrowing western economic theories and experiences. From the end of 1990s, there were already personnel who studied abroad and returned to China and played an important role or even assumed leadership positions in teaching, theoretical study and the work in government economic departments at various levels. It should be highlighted that the Peking University formed the China Center for Economic Research headed by Lin Yifu, now known as National School of Development at Peking University, in the 1990s. The center gathered a group of talents who studied abroad and returned to China and established regular communication relations with National Bureau of Economic Research (NBER). The research results attracted great attention from relevant departments.

⁸See Tang Min, Mao Yushi ed., *Frontier Special Research Topics on Modern Economics*, Book 1.

From the middle of 1980s, more and more famous economists in western countries, Japan, India and other countries were engaged or invited by higher education institutions to give lectures in China as communication were made between Chinese and foreign colleges and universities. When many organizations and even some government departments held international symposiums on important social economic issues, famous foreign economists and government officials were also invited to participate. The majority of Nobel Prize laureates came to China to give lectures and some of them, such as Robert A. Mundell, Joseph E. Stiglitz and Ronald H. Coase, came to lecture in China for a number of times. What these famous economists from western countries introduced and explained to the Chinese people was naturally the new research results that they achieved in the study of modern capitalist economy. The Chinese people should not expect or require these economists to tell them how to build socialist market economy because the construction of socialist market economy required themselves to explore and innovate in the practice of reform. But the study of the economists on market economic system and its operation principles was undoubtedly helpful for the Chinese people to promote the exploration and study on socialist market economy. It was worth mentioning that some famous western economists truly made great efforts to understand the complicated economic situations and questions that China faced and gave well-intentioned and beneficial suggestions. Here is one example. The Development Research Center of the State Council held the China Development Forum in March each year from the beginning of the 21st century and invited prestigious foreign economists and relevant Chinese experts, scholars and senior officials to make dialogues and exchanges on the hotspot issues and difficulties in China's economic development and reform. For example, during March 17–19, 2007, the forum invited renowned experts, including Dwight H. Perkins from the Harvard University, James C. Scott from the Yale University, Joseph E. Stiglitz, laureate of the Nobel Prize in economics, Martin Feldstein, former chairman of the Council of Economic Advisers of the US administration, Stephen Roach, chief economist at Morgan Stanley, and David Dollar, the World Bank's Country Director for China and Mongolia, to make exchanges with Chinese senior officials and scholars on important issues like China's mode of economics growth, distribution and consumption, energy, environment, sustained development, urban and rural medical care insurance, and new countryside construction. In the beginning of 2009, the China Center for International Economic Exchanges (CCIEE) headed by Zeng Peiyan was established and it held the first exchange meeting with important foreign think tanks. Beneficial communication was made on the current international financial crisis and the issues that confronted Chinese economy.

4 The Influence of Western Economics to China's Economic Study and Its Economy in Reality

I. The Influence to the Object of Study and Methodology of Economics in China

Traditional Chinese socialist political economics was the theoretical manifestation or reflection of socialist planned economy. On the one hand, as China advanced in the transition from planned economy to socialist market economy, it was increasingly required in practice that people change the theoretical economic theory in the Soviet model and discard traditional textbooks based on Soviet textbooks of political economics. It was also required that new systems of economic theories be created. On the other hand, Chinese economists increasingly realized in the practice of reform that, although western economics was a theory that served capitalist market economy, the Chinese people still could draw from the research results in it about various aspects such as the principles, mechanisms and operation of market economy. Thus, people closely related to the reality of economic reform and development under the guidance of the Deng Xiaoping theory in the study of economic theories in China and absorbed certain beneficial reference from western economics with proper analysis so as to constantly push forward theoretical study into deeper levels. At the same time, profound change started to occur and would continue to occur in the study of economic science in China, which mainly manifested itself in the following several aspects:

- (I). The Reflection on the Object of Study of Economics Widened the Scope and Content of Study of Economics and Ushered in the Transformation of the Methodology of the Study of Economics in China.

Traditional socialist political economics took traditional planned economy as its object of study. Such planned economy was in fact modern natural economy tied up with a planning network. The state provided the enterprises with investments free of charge. Their products were allocated and transferred by the state in a centralized manner. All the profits of these enterprises were turned into superior authorities. Everything in production, exchange and consumption was arranged according to national plans. The investment of the enterprises and their other main activities were all decided by competent government departments at various levels. In such case, the entire society was one big “enterprise” and the enterprises were nothing but “workshops”. There was no difference between macro-and microscopic economies. The entire social economy was nothing but a whole piece of mass. As a result, socialist political economics, which studied and reflected such socioeconomic form, became increasingly simplified and, in the end, it became a collection of several socialist economic principles and relevant policies, laws and decrees. Macro- and microscopic economics were absolutely not different as big or small ones or as the whole and the part. Both were categories of market economy and did not exist in planned economy. Thus it could not become a category in traditional socialist political economics.⁹

The undertaking of reform and opening up triggered the economic transition from socialist planned economy to socialist market economy. It required that economics adapt to the requirements in the transition and take socialist market economy as the object of study. Although the systems and mechanism of the market economy in China

⁹See Huang (1998a, b), Sect. 3, Chap. 1.

were still very immature and unstandardized and socialist market economy was very different from the market economy in western countries at present, there were still many things that China could borrow in western economics, which studied market economy. It was very natural that the differentiation between macro- and microscopic economics and relevant economic categories were introduced and borrowed by the circle of economics in China and used to promote the study of transition economy in China. All these caused great change to the picture of the study of economics in China and such development would advance toward greater breadth and depth in the future.

Moreover, the kernel of the discussion of all economic issues was “cost-benefit” analysis under market economic system. Profit motive and competition were the driving power of economic progress. It was the case in capitalist market economy and so was it in socialist market economy. All these should also be the categories in the economic study in China. But traditional political economics focused on productive relations in the study. Productive relations were originally closely related to economic interests. But traditional political economics only highlighted class antagonism when studying capitalist productive relations. And it discarded the issue of economic benefits when analyzing socialist productive relations and emphasized “letting politics take command” and “the consistency of the interests of the whole society”. Thus economic relations were turned into political relations and political analysis took the place of economic analysis. Now in order to adapt to the needs of the transition into socialist market economy, the economic study in China was committed to analyzing economic relations and the behavior and activity of the entities in market economy.

In addition, western economics started with market economy in the study and employed the method of cost-benefit analysis in the analysis on all economic issues. As a result, many branches of economics were formed, such as cameralistics, finance and trade and also consumption economics, population economics, environment economics, health economics, regional economics, public economics, service economics, and so on. The circle of economics in China drew from the development of multiple disciplines in western economics and broadened their view and research areas. They started with the situation in China and devoted themselves to establishing and developing various economic disciplines with Chinese characteristics. Thus the situation in the past was ended that traditional political economics not only commanded all economic disciplines but also dominated the discussions in economics. An active situation started to emerge in which a great many scholars worked with great vigor.

(II). The Policy of Reform and Opening Up Triggered the Transformation in the Research Methodology of Economics while Broadening the Research Horizon of Economics.

The methodology in economics could basically be divided into three levels. The first level was the most fundamental and abstract. It was the philosophical foundation, such as materialism or idealism or dialectics or metaphysics. The second level was the thinking method for theoretical study or construction of systems, such as logical

method or historical method or normative analysis or empirical analysis. And the third level was the technical methods in specific application, such as mathematical method, equilibrium analysis and case study. However, traditional socialist political economics was restricted too much to the method of normative analysis. It overlooked the method of empirical study and ignored the requirement of the development of socialized production for market economy in real life. It only observed the outside world, starting from its own "value judgment", rather than adapting its thought to the objective world. Rather, it required the outside world to adapt to its own value judgment. It was not accustomed to answering the question "what the world is" but focused on elaborating "what the world should be". It often overlooked the objectivity of the operation of economy in reality but emphasized how it should operate so that the conclusion of relevant research could not pass the test of experience. It should be said that such research method that overstressed normative analysis, which was persistently implemented in traditional socialist political economics, in fact betrayed the methodology in dialectic and historical materialisms. It was right because of such problem that Deng Xiaoping cried out that "practice is the sole criterion for testing truth" in the very beginning of the reform and opening up. The purpose of his call was to reunite the thought of the whole CPC onto the track of dialectic and historical materialisms and to prepare the ideological foundation for the great historic pioneering undertaking of the reform and opening up. The economists in China benefited from this great educational movement and rectified their thinking methodology. They endeavored to correctly combine the methods of normative and empirical analysis and historical and logical methods under the guidance of dialectic and historical materialisms. In this sense, the study of economics in China at present got rid of the dogmatic methodology in traditional political economics under the guidance of the Deng Xiaoping theory and thus realized the transformation in methodology.

Moreover, it also should be seen that some methodological issues, such as those related to empirical method and quantitative analysis method, in western economics also exerted beneficial influence on the study of economics in China. Here the neo-institutional school should be mentioned in particular. Why did the neo-institutional school of western economics attract the interest of the circle of economics and, in particular, middle-aged and young economists extensively? One of the main reasons for this was that the neo-institutional school was methodologically more accessible to Chinese scholars. For example, (1) The method of institutional analysis in either traditional institutional school or neo-institutional economic school emphasized the promotive role of system factors in social development. They opposed that the analysis of system be limited to abstract economic factors and stressed that non-economic factors, such as those of politics and society, also be included in the analysis. Non-economic systems consisted of formal restrictions, such as constitution, laws and regulations, and informal restrictions, such as ethics, customs and traditions. Neo-institutional school did not make the distinction between superstructure and economic foundation in the general body of the whole social system and also did not clearly identify the decisive role of economic foundation. But they did shift the driving power of social development from the subjective areas of the mankind to objective social existence. It had certain commonality with historical materialism in this point,

which made neo-institutional analytical method more acceptable to some Chinese economics. (2) Institutional analysis mostly studied systems and institutions from the angle of economic operation. The basic concepts, methods and instruments that it used was directly related to the operation of market economy. It incorporated systems and institutions into a neo-classical theoretical model. Namely, systems and institutions and, in particular, non-economic factors were regarded as the endogenous variables of the model for examining its influence to the economic behavior of the mankind. The theories and methods of the neo-institutional school, represented by Ronald H. Coase, Douglass C. North, Harold Demsetz, Armen Albert Alchian and Oliver E. Williamson, and, in particular, the neo-institutional property right theory, once became the focus of the introduction and study of western economics in China. For example, Zhang Jun's book *Modern Property Right Economics*, published by Shanghai People's Publishing House in 1994, was a treatise that contained relatively systematic study on property right theory. The institutional analysis on the operation of market economy in neo-institutional school was more sensible in comparison with traditional political economics and it was rather attractive to many Chinese economists and, in particular, middle-aged and young economists. For example, a considerable number of economists in China started to adopt the neo-institutional methods in western economics from the end of 1980s. They employed the method of combining transaction cost analysis, system endogenous analysis and neo-classical equilibrium analysis, to make in-depth study on the economics issues, such as the cost-benefit analysis of reform and the institutional arrangement of enterprise property right, in the transition process of China from planned economy to market economy. The research results in this area were of a huge number.

II. Chinese Scholars Selectively Absorbed and Borrowed the Theories in Western Economics and Studied In-Depth the Issues in China's Economic Reform and Development

The Third Plenary Session of the Eleventh CPC Central Committee made the clarion call of "reform and opening up". In order to implement the principle of "taking economic construction as the central task", the workers in economic theoretical study and practical economic work needed to start with the real situation of Chinese economy, adhere to socialist road and direction and, at the same time, break the fetters of planned economic system and relevant outlooks. They should explore the approaches to advance toward market economy and draw from foreign practical experiences and economic theories. The development of economic theories was closely associated and mutually promotive with economic development and the advancement of economic reform. It can be said that the Chinese economic theories developed during over 30 years of reform and opening up through both taking the situation in the country as the basis and selectively absorbing and borrowing foreign economic experiences and theories in the process of building socialist market economy.

In early 1980s when western economics was still mainly in the stage of being introduced in China, a small number of people already advocated drawing from particular principles in western economics to improve China's economic analysis and

economic systems at the time. As the introduction of western economics became more and more extensive and in-depth, more and more people drew from western economic theories to analyze the issues in China's economic reform and development. In 1992, China specifically declared that building socialist market economy be taken as the goal of economic development. From then on, the workers in the study of economic theories and those in practical economic work started with the actual situation in China in their work under a more clearly-defined goal. They carried out study and discussion more closely centering round the issues in economic development and reform. And as a result, they also drew from and referred to some mechanisms or system products in western economic theories and western market economy. The chapter intends to make a brief introduction on the two periods before and after 1992. Due to the limit of its length, only the important things during these periods were taken respectively as examples.

(I) From the Reform and Opening Up to 1992

This period was one of exploring the direction of reform. The Chinese people were exploring carefully whether they should “combine planning with market regulation” or further advance towards “market economy”. Many economists drew from some theories in western economics in the exploration about “market exploration”.

1. The Theory of “Buyer’s Market”

Buyer’s market and seller’s market were two conceptual counterparts. The former was associated with competition, consumer sovereignty and market mechanism while the latter with monopoly. According to the views in western economics, “consumer sovereignty” and “buyer’s market” was a status worth trying to realize while “monopoly” should be prevented or opposed. Planned economy was even regarded as the total monopoly implemented by the state. Hungarian economist Janos Kornai said that it generated “shortage economy”. In the very beginning of the reform and opening up, most economists in China advocated expanding commodity economy. In February 1979, Huang Fanzhang published an article in *Business Management Journal* and advocated establishing competition mechanism so as to realize consumer sovereignty, which was called “consumer power” at the time, in socialist economy.¹⁰ In October the next year, Liu Guoguang published an article and proposed the issue of building the “buyer’s market” of socialist economy.¹¹ In September 1983, he published an article in *Finance and Trade Economics* and proposed “discussing buyer’s market once again” from the angle of the purpose of social production.¹² He

¹⁰See Huang (1979).

¹¹See Liu (1980). In economics, “buyer’s market” was associated with competition and market mechanism. It indicated that market mechanism could allocate social resources according to the needs of the consumer. This was in fact a status worth trying to realize. In the middle of 1990s, Chinese economy once took a downturn and goods sold slowly on the market. Some people called such a situation “buyer’s market”. A few of them even published special discussions on major national newspapers and magazines. They seemed to turn the term into the synonym of “economic recession”. This was the misuse of the term “buyer’s market”.

¹²See Liu (1983).

said that the proposal of “buyer’s market” was both the discussion on the purpose of production and the continuation of the discussion of consumer rights. How could the market in China be turned into the market that truly served the consumer, listened to the consumer’s opinion, and gave the power of decision to the consumer? The article also specifically proposed a question from the angle of economic system reform and pointed out that the word “buyer” in the concept “buyer’s market” not just referred to individual consumers but also included the “consumer of production”. “It is a very important aspect in exercising enterprise autonomy that a producer makes selections in the investments of raw materials and other things.” Such “buyer’s market” could only be established through competition and could only be the product of market economy. In early 1980s, it was still impossible for people to have the idea of socialist market economy in their mind. So the opinion of building “buyer’s market” in socialist economy was in fact the expectation in the earlier time for the market economy under socialist system.

2. The Theories of Market Mechanism and Corporate Governance Structure

There were many works that drew from western economics to formulate the role of market mechanism. The representative ones among them were *On Competitive Market Mechanism* and *The Reform of Large- and Medium-Sized Enterprises: Establishing Modern Enterprise System*, both authored by Wu Jinglian and published by Tianjin People’s Publishing House respectively in 1991 and 1993.

In the book *On Competitive Market Mechanism*, Wu Jinglian analyzed and commented different models and theories proposed by Oscar Lange, Włodzimierz Brus and Ota Sik and specifically determined through such analysis and review that the kernel issue of economic system reform was the transformation of the basic means for distributing social resources, namely replacing planned management with market mechanism. He believed that market mechanism was irreplaceable and that people would not succeed even in simulating market mechanism with advanced computing technology like what Oscar Lange advocated because the main issue in resource allocation was not about calculation or information but about people’s economic interests. “Even though computer simulation could resolve the issue of information communication, it still could not regulate interest relations.”¹³ This showed that even the computer simulation of market mechanism would not work and the only choice was the market mechanism in reality. So the target model of China’s reform should be socialist commodity economy, namely socialist market economy. Hence, his theory played a promotive role for building socialist market economic system under the guidance of the Deng Xiaoping theory.

As to how to build socialist market economy, Wu Jinglian borrowed in the book the theory about administrative and economic decentralization, or market decentralization, proposed by American comparative economist Morris Bornstein, and advocated realizing the separation of administration from enterprise management in state-owned enterprises through economic decentralization. And in order to create the microscopic foundation for socialist market economy, he advocated introducing

¹³See Wu et al. (1991).

“company system” and “corporate governance structure” to help state-owned enterprises build modern enterprise system. He also drew from the theories on modern company system established by western scholars, such as Adolf A. Berle, Gardiner C. Means, Alfred D. Chandler, Jr. and Michael E. Porter, and, in particular, the theory on principal-agency relationship and promoted a series of suggestions on fulfilling the modernization reform of the management system of state-owned enterprises in China. These suggestions played a positive role. Moreover, he also proposed his objection on the “contracting system” that was popular in state-owned enterprises at the time and believed that “such contracting system in state-owned industrial enterprises might be the highest form of ‘insider-control’ in the process of the economic system transition in China”. Such contracting system was only a “transitional method” to give some autonomy to the enterprises under the condition that the separation of administration from enterprise management was yet to implement and competitive market was not formed. The radical solution still laid in establishing modern enterprise system.¹⁴ In the 1990s, Wu Jinglian called for many times for building “good” market economy and avoiding “bad” market economy. And he warned that people needed to guard against the emergence of “insider control” and “crony capitalism” and advocated “market economy under the rule of law”.¹⁵

Wu Jinglian was nicknamed “Market Wu” among the scholars. The nickname came from the colloquium on economic issues presided over by the comrades in central leadership and held at Zhongnanhai on July 5, 1990, in which Wu Jinglian participated. At the meeting, he spared no effort to advocate that market economy should be taken as the orientation of the reform. He negated the planning orientation and opposed the slogan of “combining planned economy with market regulation”. He believed that the issue at present was that “market-oriented reform was not resolute and thorough enough” and “commodity economy was market economy”. Because of this, Wu Jinglian was called “Market Wu”. At the time, “market orientation” was under question, the nickname was derogatory. But two years later, the central authorities adopted the resolution on building socialist market economic system and it became complimentary. The change from the meaning of the nickname from a derogatory one to a complimentary one reflected the difficult journey of China in the exploration for the direction of reform.

3. Property Right Theory

Chinese scholars wrote many works and papers to introduce and study western property right theory and there were many other works and papers that explored and applied such theory in association with the practice of economic reform in China. And “Modern Western Property Right Theory and Enterprise Behavior Analysis”, written by Liu Wei and Ping Xinqiao and published in the 1st issue of *Economic Research Journal* in 1989, was an excellent paper among them.

¹⁴Wu (1993).

¹⁵Wu (2007).

The paper emphatically introduced the property right theory of Ronald H. Coase and pointed out that this property right theory was built on the basis of the transaction cost theory proposed by the economist. Later, Coase took externalities into account and proposed the category of “social cost”. The set of views on property right proposed by Coase was summarized as the “Coase Theorem” by George Joseph Stigler. Although Coase himself did not make such summarization on the views in his theory, the theorem summarized by Stigler was widely accepted by the circle of academic study in the West. Liu Wei et al. related to the practice of China’s economic reform in the paper and formulated the important meanings of the property right theory to Chinese economic reform, which mainly included the following: First, “the property right theory emphasizes the position of enterprise property right in the entire process of economic operation. Such a view is helpful for us to understand the position of enterprise ownership system reform in the entire system reform.” Reasonable equilibrium price mechanism could only be the endpoint and result of clearly defining enterprise property right. Otherwise, it was impossible for an enterprise to have property and budget constraints. The result of opening up prices could only be divergent or non-convergent and prices could not rise in endless turns. Second, “property right theory emphasizes the importance of enterprise property right structure to the taking of risk responsibility. This is enlightening for us to understand the symmetry between right and responsibility in property relationship in the reform.” In modern company system, the board of directors had corporate ownership right, which was the equivalent to enterprise property right, shareholders possessed equity, which was ownership right, and managers had operation right. Under the condition of the separation of these three rights, “it is the most prominent defect of the separation of the two rights” to simply emphasize the separation of the two rights of ownership right and operation right and tend to weaken the restriction of ownership right on operation activities and not to restrict operation right with new property right. Third, “property right theory emphasizes the economic meaning of transaction cost. Such thought is helpful for us to understand the mutual relationships between the size of an enterprise and the efficiency of employing market mechanism.” It was not the case that the larger the size of a transaction participant was or the fewer the number of transaction participants were, the higher the efficiency became. Rather, people should find an equilibrium relationship between the two. Fourth, “property right theory emphasizes the necessity of the free transfer of property right. This is enlightening for us to understand the importance of socialist property right market.” In other words, people should permit the free transfer of property right and cultivate property right market so as to improve the effectiveness of resource allocation in the entire society.¹⁶

4. Disequilibrium Analysis

The so-called disequilibrium analysis was a kind of economic theory that developed after the publishing of *The General Theory of Employment, Interest and Money* written by John Maynard Keynes. It broke through the traditional Walrasian general

¹⁶See Liu and Ping (1989).

equilibrium theory and believed that Walrasian equilibrium took complete market and sensitive price mechanism as its conditions, which was just subjective conception. What existed in reality was often the situation that the market was not complete enough and price mechanism was not sensitive enough. A kind of equilibrium could still be achieved under such conditions of disequilibrium. The only problem was that the equilibrium achieved under such disequilibrium was often accompanied by unemployment and inflation. Disequilibrium analysis regarded Walrasian equilibrium as an exception. *Chinese Economy in Disequilibrium*, authored by Li Yining and published by The Economic Daily Press in China in the early 1990s, employed disequilibrium theory to analyze Chinese economy, which was in the process of transition towards socialist market economy at present.

Li Yining's analysis in the book on Chinese economy in disequilibrium at present mainly concentrated on the following several points: First, he divided disequilibrium into two types: The first type was associated with incomplete market. This concerned the problem that limited resources could not be distributed reasonably between various departments, industries and regions. The second type was associated with the lack of budget restriction in the enterprises so that resources could not be utilized effectively. People should endeavor to make economy to transform from the second type of disequilibrium to the first type and then to further narrow the degree of disequilibrium. Second, stagflation might occur under the condition of disequilibrium during the period of economic transition. Inflation might include the two types of explicit inflation and implicit inflation, in which price did not rise on the surface but there were goods to sell under such price. Stagnation might include the two types of explicit and implicit stagnation, in which actual effective supply did not increase or even decreased although certain growth rate was retained. So there were four types of combinations in stagflation. People needed to adopt relevant measures to prevent and regulate after distinguishing corresponding situations. Third, people needed to pay more attention to the role of structural imbalance in economic imbalance. The difficulty in this aspect was how to ensure the coordinated advancement of economic reform, economic growth and industrial structure adjustment. Fourth, there were various rigidities in disequilibrium economy, including enterprise rigidity as well as wage rigidity, employment rigidity and welfare rigidity. If people could not resolve the problem that state-owned enterprises did not have budget restriction or eliminate enterprise rigidity, Chinese economy could not get out of the second type of disequilibrium status. Various problems in the above all required that people pushed China toward socialist market economy through economic reform. And disequilibrium economy often caused economic reform and policy measures to become misshaped easily and made system innovation deformed. This problem was mainly related to incomplete market and unstandardized system innovation. All these required people to speed up pushing forward market-oriented economic reform.¹⁷ This book, in fact, also played a promotive role for building socialist market economic system.

5. Macroeconomic Theory

¹⁷See Li (1990), Foreword and the 10th chapter.

Many scholars in the circle of economics in China borrowed from western macroeconomic theories to analyze China's economic issues. The several mentioned in the above and their works almost all drew from macroeconomic theories in different degrees. However, there were only a few theoretical works (not textbooks on macroeconomics) that drew from macroeconomic theories and focused on the study of macroeconomic issues in China. *An Outline of the Theory of Macroscopic Economy under Public Ownership System*, authored by Fan Gang and Zhang Shuguang and published by SDX Joint Publishing Company in 1990, was one example of these several.

In this treatise, Fan Gang et al. made theoretical study on public ownership economy. The public ownership economy that it studied was a kind of theoretical abstraction rather than the economy of a certain country or a specific economic organization. And such theoretical model was based on practice. Namely, it was obtained mainly after proper summarization and abstraction were made on certain economic relations in reality in the socialist economy in China. It was generated also under the more extensive background of the economies of all socialist countries. The targets of such theory were some economic issues commonly confronted by these socialist countries. Such empirical study was not intended to tell people "what public ownership economy should be like" or "how people should act". Rather, "it truthfully explains what economic relations themselves are like in reality and how people act in reality". It started with the analysis on the "basic contradiction of public ownership system" and explained the way of act of various behavioral entities in macroscopic economy and the interest contradictions between them. It also analyzed theoretically the reasons why various kinds of macroeconomic phenomena and issues, such as inflation, excessive growth, shortage and economic fluctuation, occurred. In addition, it also proposed a series of new concepts, views and analytical methods. In summary, the work endeavored to employ the theories and methods in western macroeconomics under the guidance of Marxism and made exploratory theoretical study on macroscopic economy under socialist public ownership system. Such exploration was undoubtedly a kind of conducive attempt.

(II) From 1992 to the Present

The central authorities made the decision of "building socialist market economic system" according to the spirit of Deng Xiaoping's South Tour Speech in 1992 and pointed out that "building socialist market economic system was an unprecedented pioneering undertaking in which many very complicated issues needed to be resolved". The extensive community of the workers in theoretical study of economics and practical economic work in China made research and exploration in this pioneering undertaking and borrowed many useful things from western economics in this process. Here the author would like to mention a few of the important ones as examples.

1. The Adoption of the "System of National Accounting"

With the transition from planned economy to market economy and with the transformation from the direction control by means of administrative instructions to the macroscopic regulation in reliance to economic means, the technical methods in China's national economy management also experienced great change. Namely, the System of National Accounting, based on modern western economic theories and generally recommended by the UN to various countries in the world, was adopted to replace the System of Material Product Balances, based on traditional political economics and created by the former Soviet Union and adopted in China in the past. The difference between these two very different national economy accounting systems began with a key category, "national income". In the System of Material Product Balances, which was based on traditional socialist political economic theory, national income was only the income created by the workers in material production departments. In the System of National Accounts, which was based on modern economic theories, national income included the income created by not only material but also non-material production departments, such as service departments. It was exactly starting from the different definitions of the key category of national income that people designed two different sets of statistical index systems respectively and formed the MPS and SNA statistical systems used to manage national economy.

In 1992, the Chinese statistical departments promulgated the *Plan for Trial Implementation of the National Economy Accounting System in China*. From 1993, China officially abolished the MPS and adopted the basic accounting framework, principles and methods of the SNA so as to get in line with international practice. In order to adapt to the situation and development of the reform and opening up and the needs in macroscopic economic management, relevant departments established the accounting system of national economy in China on the basis of the SNA published by the UN in 1993 and with the national situation of China taken into consideration. They also designed and prepared table of gross domestic product and its use, input-output table, flow of fund table, balance sheet and balance of international payments and a set of revolving accounts of national economy.

It was worth mentioning that there were not many works publishing in China that studied the System of National Accounting and the issues related to China's GNP. The one with larger influence among them was *The Distribution and Use of China's GDP* authored by Guo Shuqing and Han Wenxiu and published by China Renmin University Press in 1991. The book adopted the national economy accounting method recommended by the United Nations and made field surveys about China's gross national product statistics from 1979 and its distribution and use structures. It analyzed relevant system reasons and policy background and proposed several suggestions on improving GNP distribution and use structures. It played a positive role in promoting the SNA in the practical work in China.

As foreign countries carried out the study on green GDP, Chinese scholars also carried out the study on building China's green national economy accounting system with the outlook of scientific development as guidance. *The Proceedings of the International Symposium on Building China's Green National Economy Accounting System*, edited by Pan Yue and Li Deshui and published by China Environmental Science Press in 2004, could be seen as a good beginning in the study in this area.

2. About the Labor Theory of Value and the Theory of Equilibrium Price

China built a reasonable distribution system under socialist market economic system and also established the system with distribution according to performance as the main part and the participation of various production factors such as labor, capital, technology and management in distribution according to their contribution. The system for China's national economy management changed from the System of Material Product Balances to the System of National Accounts. All these changes urgently required that people make new in-depth thinking about their theoretical cornerstone—the value theory. Obviously, the labor theory of value, which was taken as the standard in traditional socialist political economics, could no longer provide theoretical foundation for these changes. People needed to “liberate the thought” and “advance with the time” in their mind and understanding and the value theory needed to be developed. *The Social Labor Theory of Value*, authored by Qian Bohai, a late elder-generation Chinese economist, and published by China Economic Publishing House in 1997, “Solving the Puzzle of Total Value”, written by Gu Shutang and published on *China Business Times* on November 5, 2001, and *A New Theory of Wealth*, authored by Liu Shibai and published by SDX Joint Publishing Company in 2005, all believed that the traditional “labor theory of value” could no longer provide theoretical foundation for system innovation and that the theory of value needed to advance with the time in its development. These works drew from western economics in different degrees. But these scholars mostly stopped at the point of recognizing that the labor in service industry also belonged to “productive labor”. They did not recognize that the production factors other than labor were also the source of value. So their views could not provide a complete theoretical foundation for the reasonable distribution system under socialist market system.

It was worth mentioning that Yan Zhijie made further exploration and attempt in his works of “Price Determination and the Labor Theory of Value”, published in *Academic Monthly*, No.9, 1995, and *A New Exploration on the Labor Theory of Value*, published by Peking University Press in 2001. He proposed that labor was an important factor but not the only factor in the area of price determination and change. In addition to it, there was the action of various productive factors. So he proposed that the source of price was not one but many. In addition to labor, various other productive factors, such as capital, land, science and technology, and management, should all be the source of value. Besides, he believed that the situation proposed in the labor theory of value that commodity value was determined by the socially necessary labor time of commodity production applied in explaining simple commodity production or even the exchange relations under the condition of exchange in kind in earlier times. But with economic progress and the conversion of value into production price, the determination of production price also depended on whether the labor materialized in commodity met the demand of the society. So he drew from Marshall's equilibrium price theory and analyzed the question of price determination in modern economy from the two sides of supply and demand and made further explanation on relevant arguments of Karl Marx.

Of course, some people adhered to the labor theory of value and voiced disagreement on Yan Zhijie's new views. This indicated that workers in theoretical and practical economic work needed to make in-depth study on the value theory so as to adapt it to the needs in the development of socialist market economy.

3. About Shareholding System and Corporate Governance Structure

Early in the spring of 1980, Li Yining proposed the adoption of shareholding system to reform state-owned enterprises at a national labor and wage meeting. In 1989, Huang Fanzhang published the article *Shareholding System—A Good Form of Socialist Whole People Ownership System* and advocated adopting shareholding system to reform state-owned enterprises. First, people should use the separation of the two rights of ownership right and operation right in shareholding system to facilitate the separation of administration with enterprise management. Second, people could use the governance mechanism of shareholding system to build the macroscopic foundation required for building market economy on the basis of public ownership system. And third, people could ensure the foundation of public ownership system of state-owned enterprises through state controlling and, at the same time, absorb the funds in the society to strengthen state-owned enterprises. The conclusion was that shareholding system was a good form for maintaining and realizing socialist public ownership system. It can be said that people all explored and discussed how to reform state-owned enterprises so as to both maintain public ownership system and combine it with market economy in the 1980s. The discussion mainly concentrated on whether to adopt “contracting system” or “shareholding system”. But soon after, a political turbulence occurred and shareholding system met much challenge for some time.

In 1992, Deng Xiaoping proposed the historic mission of building socialist market economy. Soon after, the contracting system was abolished in the reform process. Many state-owned enterprises carried out the experiment and practice of shareholding system. Some influential scholars, such as Wu Jinglian, Gao Shangquan, Wang Jue and Qian Yingyi, some influential research institutions, such as the Development Research Center of the State Council, the China Institute for Reform and Development in Hainan, and the China Development Institute in Shenzhen, and some influential periodicals, such as *Comparative Economic and Social Systems*, *Economic Research Journal*, *China Industrial Economics* and *China Opening Journal*, made a large amount of research and published many research results on the shareholding system reform and corporate governance structure of the state-owned enterprises. It was exactly on the basis of the experiment and study of the shareholding system reform of the state-owned enterprises that the CPC Central Committee made in 2003 *The Decision on Several Issues on Improving Socialist Market Economic System* and specifically affirmed that people should “make shareholding system the main form of realization of public ownership system”. Where an enterprise needed to be controlled by state-owned capital, people might implement absolute or relative controlling by shareholding.

Shareholding system was originally born in capitalist market. It was an organization form of enterprise that emerged in adaptation to the development of socialized

production. Under shareholding system, general equity was only general property right. Only controlling stake represented enterprise property right. Private capital could exercise controlling by shareholding and so could state-owned capital. Therefore, shareholding system could be used by both capitalism and socialism. In the 1990s, people's understanding mainly focused on not regarding shareholding system as an equivalent to capitalism. But after the central authorities confirmed that people should "make shareholding system the main form of realization of public ownership system", some comrades went to the other extreme and saw shareholding system as an equivalent of public ownership system. They even believed that the shareholding enterprises in western countries were also publicly-owned enterprises. For example, Yi Lining held such a view in his article "On New Public Ownership Enterprises"¹⁸ and so did He Wei in his article "Shareholding System Was Social Ownership System".¹⁹ They quoted the position of late scholar Dong Fureng and advocated "calling public shareholding enterprises public ownership enterprises". Li Yining proposed the four forms of new public ownership system: first, new state ownership system after system transformation, second, publicly shareholding enterprises, third, publicly shareholding enterprises without state investment, and fourth, enterprises run by public interests funds. Among them, the term of so-called "publicly shareholding enterprise" only had ambiguous meaning because the companies listed on the stock market in China and abroad had millions of shareholders from the "public". He Wei specifically claimed that the shareholding systems under capitalist system could all be called "public ownership system". Wei Xinghua and Sun Yongmei published an article in *Beijing Daily* on April 14, 2005 to criticize the opinions above and pointed out that these scholars confused the forms of existence and realization of public ownership system. The author also disagreed with such a view and published three articles about it successively.²⁰ The author discussed with Prof. He Wei and pointed out that ownership system, either public or private ownership system, needed certain form of realization. People should not confuse ownership system itself with its form of realization. The centralization of capital and the dispersion of equity were the two sides of the same economic process. People should distinguish general equity from controlling stake. Only controlling shareholders were the main party in the centralization of capital and the actual disposer and controller of enterprise property right. Other shareholders were the object of the centralization of capital. The equity that they held was only general property right. Public or private ownership should be distinguished according to the holding of controlling stake. If controlling stake was confused with general equity, wrong arguments would definitely emerge from both the left- and right-deviated sides. On the one side, some people in the USA in the 1950s–1960s claimed that "everyone is a capitalist" on the pretext that many families owned stock securities. On the other side, people used the ambiguous

¹⁸Li (2004).

¹⁹He (2005).

²⁰The three articles on shareholding system written by Huang Fanzhang were published on *China Economic Times* on November 22, 2004, August 8, 2005 and January 9, 2006.

term of the so-called “public shareholding” and called all shareholding enterprises, including capitalist shareholding enterprises, as public ownership enterprises.

It should be pointed out that Karl Marx studied shareholding system in *On Capital* and pointed out that shareholding system was the “sublation of private property capital within the scope of capitalist mode”, which meant that the shareholding system concentrated medium- and small-sized capital for large capitalist to use but the enterprise was still within the range of capitalist mode of production. Western economists, such as Berle and Means, made profound study on shareholding enterprises and pointed out the separation of ownership right and operation right but they still regarded shareholding system and capitalist economy as one thing. The CPC drew from the experience of the shareholding system in the West but it used the system as the main form of realization of socialist public ownership system under the guidance of the Deng Xiaoping Theory and the important thought of the “Three Represents”. This was a unique innovation both in theory and in system.

4. About “Public Service-Oriented Government”

“Public service-oriented government” was originally a category of the market economy of western countries and western economics, which was used to define the status and role of the government in market economy. In capitalist market economy, private enterprise dominated absolutely. But there were indeed some non-excludable services and products that concerned public interests which no individual, enterprise or organization could or would supply. This required that a public service-oriented government provide such public products or services. In addition to macroscopic regulation and maintenance of market order, there were such public products and services as public health, education, infrastructure, public works, environment protection and social security that had to be provided or supported by the government. In order to build socialist market economy, China naturally and urgently needed to build a public service-oriented government. Undoubtedly, it was worthwhile for China to borrow from the West in this area.

From the late 1990s, the academic circle in China made increasingly louder calls for “public service-oriented government” and required that the government should adapt itself to the needs in the development of socialist market economy and the government should transform from traditional “economic development-oriented type” to “public service-oriented type”. Particularly, after the attack of the SARS epidemic in the beginning of the 21st century, the CPC and the government also paid more attention to the issue of the reform and transition of government system. Many scholars wrote articles to call for such transformation and many government departments and organizations also organize the study about this issue and held seminars about it. It was worth highlighting that China Institute for Reform and Development organized the study in this aspect vigorously and at an earlier time. The institute held a great event called “Building Public Service-Oriented Government—International Symposium on Government Reform in China during the Transition Period” in cooperation with the company of German Technical Cooperation in November

2003. It also had an important work *Building up a Public Service Oriented Government* published by the China Economic Publishing House in 2004, which included the article “Some Suggestions on Speeding up Building Public Service Oriented Government” that had 24 suggestions in it.

It was worth mentioning that the government did not pay adequate attention to perform its functions and duties in providing public products and services. In particular, the extensive community of rural residents enjoyed public products and services of poorer quality. In addition to this problem, there were also issues in compulsory education and basic medical care, which were originally public products and services that should be provided by the government. In certain period in the past, some people turned some hospitals and schools into profit-seeking organizations. They required or encouraged teachers and doctors to make profits for individual and organization. Thus, there was deviation in the direction of development. Liu Guoguang wrote many articles to call for not making everything marketized. People should not implement marketized operation with respect to public products and services that should be provided by the government, such as education and medical care.²¹ The CPC and the state attached great importance to this issue and made great efforts to correct deviation. The Seventeenth CPC National Congress already listed building “service-oriented government” as a key area of the reform in the future.

There were a great many articles and treatises about transforming economic construction-oriented government into public service-oriented government. But there was not much discussion about one issue, namely what the difficulty in the transition from economic construction-oriented government to public service-oriented government and its system origin were. The author proposed for many times in his writings that the radical cause laid in that the Chinese government possessed the dual identities and functions of a “political entity” and an “economic entity”.²² The government should perform the functions of “public service” as a “political entity”. In addition to this, it was also an economic entity that possessed a large group of state-owned enterprises. These state-owned enterprises were in fact those under the system of the ownership of the governments at various levels. This government system with dual identities and functions were learnt from the former Soviet Union in the early period of the PRC after its foundation. Such system was favorable to implementing planned economy. But when building socialist market economy, China was required to resolutely push forward the separation of administration from enterprise management. And the key was to separate the dual identities and functions of the government. In order to thoroughly achieve the separation of administration from enterprise management, the government should depart from its economic construction orientation and completely perform its public service-oriented functions and duties. China’s state-owned enterprises operated not only in profit-seeking and competitive industries but also in those important industries that concerned national interest and people’s livelihood, such as finance, civil aviation and communications. The government rather than state-owned enterprises should exit such industries and the state-owned

²¹See Liu (2009).

²²See Huang (2005b).

enterprises in them, as the media of the entities of state ownership economy, should be put under the jurisdiction of specific government organs at various levels, such as State-Owned Assets Supervision and Administration Commission. Until now, many scholars called for the transformation of the government into a public service-oriented one but they never mentioned how to determine the relationship of administrative subordination of state-owned enterprises. Although they proposed in a loud voice, their ideas were hard to put into practice. It should be said that the central authorities always regarded the “separation of administration from enterprise management” and the “separation of administration from economy” as the priorities in the reform and made great efforts in practice. But the separation only appeared to be achieved and there were many less noticeable connections left. Not long before, the Shanghai pension scandal and the chaotic situation in real estate market fully exposed the system origin of the problems of the “separation of administration from enterprise management” and the “separation of administration from economy”.²³ If people did not resolve the issue of the dual identities and functions of the government, it was impossible for the government to transform from an economic-oriented type into a public service-oriented type. Such issue needed to be resolved gradually through system innovation²⁴ in the government system reform.

5. About the Issue of Efficiency and Fairness

The issue of efficiency and fairness was an eternal theme in market economy and modern economics. Late American economist Arthur M. Okun published the book *Equality and Efficiency: The Big Tradeoff* in 1975, in which he highlighted this issue. Fairness included opportunity fairness, such as job opportunities, and result fairness, such as income fairness. But Okun emphasized opportunity fairness in his book. Most economists believed that efficiency was the business of enterprises while fairness meant that the government carried out distribution regulation through redistribution. As China transformed from planned economy to socialist market economy, it naturally faced the issue of efficiency and fairness. In particular, it was very necessary in the early period of the reform to place efficiency on a highlighted and prioritized position so that people could become clearly aware of market economy as the direction of reform in the mind and break through the force of habit of planned economy and the ideological resistance of equalitarianism.

“Prioritizing efficiency with due consideration to fairness” was proposed the earliest by Chinese economists Zhou Weimin and Lu Zhongyuan in a research report on social security system reform.²⁵ Because China built socialist market economy from a low start point and there were large gaps between the rich and the poor, between the city and the countryside, and between different regions, the sentence

²³See Huang (2007); “The System Origin of the Chaotic Situation in Real Estate Market and the Solution of Its Regulation and Control”, *China Opening Journal*, Issue 3, 2007.

²⁴See Huang (2006a).

²⁵Zhou and Lu (1986).

that “people should manifest the principle of prioritizing efficiency with due consideration to fairness” was written into the resolution about building socialist market economy at the Third Plenary Session of the 14th CPC Central Committee in 1993.

As China’s income and distribution gaps expanded in the 1990s, the central authorities proposed “prioritizing efficiency and paying due attention to fairness” and then further proposed “prioritizing efficiency and paying more attention to fairness” in its documents. Within the following period of time, the central authorities did not reaffirm this principle in its important documents. Some people misunderstood the situation and believed that the central authorities abandoned the principle. Some people even proposed “prioritizing fairness” or “taking fairness as the utmost goal”. But the author believed that “prioritizing efficiency is the lifeline of market economy” and successively published the articles of “defending for prioritizing efficiency” and “prioritizing efficiency and promoting fairness”.²⁶ Then Lou Jiwei published an article and proposed “prioritizing efficiency and attaching importance to fairness”.²⁷ Lou Jiwei and the author both believed that “prioritizing efficiency” was the basic requirement in market economy and paid great attention to the issue of “fairness” in China. But the author believed that people had to make the cake bigger through “prioritizing efficiency” so as to “promote fairness”. “Promoting fairness” should be the destination and goal of “prioritizing efficiency”.

The 17th CPC National Congress comprehensively examined the issue of efficiency and fairness in China and proposed “people should address well the issue of efficiency and fairness in both primary distribution and redistribution and pay more attention to fairness in redistribution”. It was also emphasized that “people should create conditions for more people among the mass to possess income from property”. This was a strategic measure for addressing well the issue of efficiency and fairness in primary distribution in practical work. Recently, the author published an article entitled “Make Income from Property Reach More People” and proposed that people should utilize shareholding and capital markets so that the extensive community of the mass could have income from property.²⁸ The reform of income distribution system in China both drew from the experiences and theories in western countries and highlighted more the Chinese characteristics in socialist market economy.

6. About the Outlook of Scientific Development

The kernel thought in the outlook of scientific development was proposed the earliest by Comrade Hu Jintao on July 28, 2003. The report of the 17th CPC National Congress in 2007 made complete formulation about the outlook of scientific development and proposed that its primary meaning was development, its kernel was people orientation, its basic requirement was comprehensive coordination and sustainability,

²⁶Huang (2006b); “People Should Scientifically and Historically Understand the Relationship between Efficiency and Fairness and Advocate ‘Prioritizing Efficiency and Improving Fairness’”, *China Reform Daily*, June 15, 2006; “The Issue of Efficiency and Fairness during the Transition Period in China”, *China Business and Market*, Issue 11, 2006.

²⁷See *Study Times*, June 19, 2006 for Lou Jiwei’s article.

²⁸Huang (2008).

and its fundamental method was overall planning and all-round consideration. The outlook of scientific development already became the fundamental guiding thought to guide China's economic and social development. The outlook of scientific development was the product of the combination of Marxism and China's practice in reform and opening up. It embodied and absorbed the advanced cultural fruits of the contemporary world. In particular, its important contents about coordinating man and nature, building ecological civilization, realizing economic sustainability and inclusive growth absorbed relevant research results in western economics.

Early in the 1950s–1960s, western scholars started to pay attention to the issues that concerned the sustained development of the mankind, such as natural resources and environment. In 1972, two American scholars published *Only One Earth* and led the study on the close relationship between the survival of the mankind and environment onto the direction of sustained development. In the same year, the Club of Rome published *Limits to Growth*, a research report written by Donella H. Meadows and Jorgen Randers, and specifically proposed the concepts of “sustained growth” and “reasonable, lasting and balanced development”. In 1987, the UN World Commission on Environment and Development published *Our Common Future* and officially proposed the concept of sustainable development. Later, western scholars expanded sustainable development into the coordinated unity between sustainable economy, sustainable ecology and sustainable society. The idea of “sustainable growth” was generally accepted by Chinese workers in theoretical and practical economic work very quickly. In fact, they increasingly felt that the issues in population, resources and environment caused huge pressure to the sustainability of economic growth in the high-speed growth of Chinese economy in several decades. Their research showed much consistence with the concerns of western scholars. For example, Fang Weizhong, a famous economist who had practical economic work experience for a long term, published in 2007 an important article entitled “2007 Was the Key to the Success of Five-Year Emission Reduction” in the influential magazine *China Policy Review*. He fully expounded the close relations between economic growth, energy conservation and environment protection on the basis of the reality in China and strongly indicated the urgency of energy conservation and emission reduction in China. He believed that it was unsustainable to pursue high-speed economic growth and advocated speeding up the transformation of the mode of growth and “putting the target on energy conservation and emission reduction in the first place and the target on GDP growth in the second place”. He believed that people needed to not only make laws on energy conservation and emission reduction but also enforce them strictly and never make concessions in this respect. There were already many treatises on saving resources and protecting environment. This indicated that the theory about the sustainability of economic growth already became won great public support.

The outlook of scientific development, which took “people orientation” as its kernel concept, not only emphasized coordinating the relationship between man and nature but also paid more attention to the relations among the people. It emphasized narrowing the gaps between the rich and the poor, between different regions, and between various groups of people. It intended to build “a harmonious society” through “letting a part of the people become rich first” and then “achieving common

prosperity” so that the people nationwide could fairly enjoy the fruits of economic development and reform. This was the “inclusive growth” proposed by the Asian Development Bank.

The concept of “inclusive growth” was proposed the earliest in 2007 by the Asian Development Bank. This concept was proposed mainly because of the fact that Chinese economy grew rapidly in years after its accession to the WTO, the gap between the poor and the rich enlarged, and the issues about resources and environment aggravated increasingly. The Asian Development Bank (ADB) organized and implemented in 2005 the study on the research topic of promoting social harmony with inclusive development. At the time, altogether eight scholars, including Tang Min, deputy representative of the ADB Representative Office in China, and Chinese scholars Lin Yifu and Fan Gang, participated in the study and published the book *Promoting Social Harmony with Inclusive Growth* in 2007. In the Chinese language, inclusive growth was also translated into a term literally meaning “shared growth”. Zhuang Jian, chief economist of the ADB Representative Office in China, indicated that the concept of “inclusive growth” was in fact consistent in meaning with the ideas of the “outlook of scientific development” and “harmonious society” proposed in China. It could also be regarded as a manifestation of these ideas. In his speech at the opening ceremony of the APEC Ministerial Meeting on Human Resources Development, which he attended on September 16, 2010, President Hu Jintao advocated that “inclusive economic growth brings the fruits of economic development to all the communities”. At the Fifth Plenary Session of the 17th CPC Central Committee held on October 16, 2010, General Secretary Hu Jintao advocated that “inclusive growth” would be included in the Twelfth Five Year Plan. It can be said that, although the ADB proposed the earliest the concept of “inclusive growth”, it bore the imprint of “Made in China” and was in fact the product of the communication, influence and borrowing between Chinese and western economic theories.

7. About Transforming the Mode of Economic Development

It was pointed out specifically in the suggestions on the Twelfth Five Year Plan adopted at the Fifth Plenary Session of the 17th CPC Central Committee that “taking speeding up the transformation of the mode of economic development is the only road to promote the outlook of scientific development. It conforms to new characteristics of China’s basic national situation and development stages”. In order to achieve such purpose, the document proposed five basic requirements: In speeding up the transformation of the mode of economic development, people should adhere to taking the strategic adjustment of economic structure as the main work direction. They should adhere to taking scientific and technological progress and innovation as the important support. They should adhere to taking guaranteeing and improving the people’s livelihood as the radical start point and endpoint. They should adhere to building resource-saving and environment-friendly society as the important force of strength. And they should adhere to taking the reform and opening up as the strong driving power. These requirements clearly pointed out the direction and approach of China’s economic work in the future.

History tells us that the transformation of the mode of economic development was the scientific reflection of the principle of economic development. No matter what the basic socioeconomic system was, the people under such a system all experienced or faced the issue of transforming the mode of economic development in the long process of economic development. In the process of economic development, people also underwent a process of understanding the issue of transforming the mode of economic development. Namely, there was a long process of changing from naturally following to consciously following the principle of economic development. The industrialization process lasted for several centuries in western countries. In the early stage, technological standard determined that people should start with labor and resource intensive industries and mainly relied on the investment of labor and natural resources to expand scale and increase production. After industrialization advanced to certain stage, the expansion of economic scale and economic aggregate would meet the bottleneck of resource supply. A more serious consequence was that it would cause excessive resource exploitation, environment damage, pollution and even climate warming. In the 1960s, the Club of Rome organized a group of scholars to make warning and reflection about the mode of economic development that western countries had followed and implemented in the past two centuries. From then on, environment and pollution issues became the ones to which the international community paid great attention. People summarized the road of economic development of western countries in the past two centuries as “polluting first and controlling and curing later”. But in fact, people had no understanding on the issues of pollution and climate warming over one century ago. The so-called road of “polluting first and controlling and curing later” was in fact the explanation given when people reflected on economic development after they made the painful and regrettable mistakes. This indicated that there was a processing of understanding in which people change from spontaneously forming development mode to consciously forming it. The problem was that the process lasted for two or three centuries and people had too many regrets about it.

China was a developing country and its industrialization fell behind western countries for one or two centuries. But China fully utilized its “latecomer advantage” and fully absorbed the experiences and lessons of advanced countries. Within a short period of several decades of its economic development, China fully understood the necessity and urgency of transforming the mode of economic development. But it could not follow the road of western countries in which people completely relied on market mechanism and enterprises spontaneously explored the transformation of the mode of economic development in the development process of one or two centuries. Rather, the China set transforming the mode of economic development as an established national policy under the guidance of scientific development. It fully utilized the leadership role of the government so as to bring into play the fundamental role of market mechanism in allocating social resources. In this way, it consciously pushed forward the transformation of the mode of economic growth. The extensive community of the workers in theoretical and practical economic work in China called for transforming the mode of economic development before the 17th CPC National Congress and wrote a great many of treatises in this area after the congress.

The one worth highlighting was *The Choices of China's Growth Model* authored by Wu Jinglian and published by Shanghai Far East Publishers in 2005. This was a masterpiece that examined the transformation of the mode of economic development in China from an international and historical perspective. He analyzed the successes and failures of the mode of economic development of developed western countries and the Soviet Union and their experiences and lessons and spared no effort to advocate that China speed up the transformation from extensive or extension growth to intensive or intension growth and change from simply relying on the investment of factors, such as labor, capital and natural resources, to relying on constantly improving the productivity of factors. The authors also quoted the views of Joseph E. Stiglitz, Amartya Sen and other scholars and distinguished economic development from economic growth. He believed that the view on economic growth that only stressed on GDP was "a kind of narrow-minded development outlook". Talent was the center of development. The radical purpose of development was to create more welfare for the people. As Amartya Sen said in his book *Development as Freedom*, its Chinese edition published by the China Renmin University Press in 2000, development could be seen as the process of expanding the true freedom that people enjoyed. These basic views were consistent with the basic view of "people orientation" in the outlook of scientific development that China proposed. The work of Wu Jinglian explored the choices of growth model for China under the guidance of such basic view. Although his view in which he opposed that there was a stage of heavy industrialization in the process of industrialization caused controversy in China, his discussion in which he spared no effort to advocate the necessity and urgency of speeding up the mode of development in the process of a new-type industrialization was very convincing. In particular, he believed that speeding up and improving the construction of socialist economic system was the inevitable requirement for truly transforming the mode of economic development. And the key point of all the key points depended on whether government reform would be successful.

Recently, Wei Xinghua published an article entitled "Several True or False Questions on Economic Development and the Transformation of Development Mode" in *Economic Weekly* on April 1, 2011. He formulated the relationship between the mode of economic growth and the mode of economic development and believed that the transformation of the mode of economic development had to take the transformation of the mode of economic growth as the premise. And the transformation of economic development included more contents. On the basis of the discussions on the development process of economic growth made by Karl Marx and western economist Michael E. Porter, he believed that "the transformation from extensive growth to intensive growth was the different stages of economic development that any country would undergo. This was not related to social and economic system or to planned economy or market economy."

It also should be mentioned that the China Institute for Reform and Development published the book *30 Renowned Economists Diagnosing China's Economic Development Mode* in 2010. In the book, the scholars expounded from different aspects that the traditional development mode in China in the past was "giving more weight to international market and less to domestic market, more to low cost advantage and

less to independent innovation, more to material investment and less to resources and environment, and more to wealth growth and less to improvement of social welfare standard". Such development mode was unsustainable and people had to speed up its transformation. They emphasized that "the forcing mechanism formed because of the international financial crisis provided a rare chance objectively for China to speed up the transformation of the mode of development". They spared no effort to advocate that people should seize the opportunity, take advantage of the trend, and push forward relevant work.

8. About Income from Property

The report of the 17th CPC National Congress proposed for the first time the concept of "income from property" and proposed that people should "create conditions for more people to have income from property".

The so-called income from property referred to the income obtained by urban and rural residents from owning movable properties, such as bank deposits and marketable securities, and immovable properties, such as house, vehicle, land and collectibles, in addition to the income of wages and salaries obtained through labor. Generally speaking, it included the income obtained through transferring property use rights, such as interests, rent and income from patent, and the income obtained through operating properties, such as dividends and property appreciation income. And "creating conditions for more people to have income from property" meant to create more ways for the extensive community of the working people to increase their wealth so that they could have multiple channels to obtain income through operating the properties that they owned in addition to the income of wages and salaries obtained through labor.

In the early 1960s, some American enterprises implemented Employee Stock Ownership Plan (ESOP) and issued minority stakes so that many American families owned a small amount of stock shares. Thus, the trend of "people's capitalism" rose in the USA, in which there was loud voice calling "everyone is a capitalist". At the time, the author wrote an article in the magazine *The Red Flag* (Issue 13) in 1962 and made criticism. The basic view was that capital centralization and equity dispersion were the two sides of the same economic process. The extensive community of shareholders was only the objects of capital centralization. Only controlling shareholders were the dominant party in capital centralization. Only controlling shareholders were the owners of the enterprises who had the rights of disposal and control of these enterprises. Ordinary shareholders were absolutely not capitalists. The author still advocated such basic view. But at the time, he wrongly held a negative attitude towards the ESOP under the influence of left-deviated thought trend. In the 1980s, the author studied, worked and made field research in the USA for four years and had the poisoning thought of left deviation cleaned up in his mind. After he returned to China in 1988, the first paper that he wrote was *Shareholding System Was a Good Form for Socialist Whole People Ownership System*. In the article, the author advocated reforming state-owned enterprises with shareholding system and also reflected and criticized his own attitude towards the ESOP. He now believed that it was a

supplementation to the income and benefits of enterprise employees. After the 17th CPC National Congress proposed that people should “let more groups in the people to own income from property”, the author immediately published the article “Make Income from Property Reach More People” in *China Reform Daily* on February 13, 2008. He proposed that people should mainly develop various factor markets and, in particular, capital market so as to create conditions for more groups of people to own income from property. People should not only encourage the enterprises to push forward ESOPs but also encourage various companies listed on the stock market to issue minority stakes. They should also bring into play the intermediary role of social security funds and, in particular, pension funds as institution investors. They should make personal accounts into actually effective ones and divided investment profits into these accounts so that the extensive community of enterprise employees could share the fruits of economic development.

It should be mentioned that Prof. Wang Jue edited in the middle of 1990s the book *He Who Works Has His Share*, published by the Guangxi Publishing House in 1993, and advocated that state-owned enterprises implemented ESOPs so that their employees could enjoy a share of capital gains in addition to wage and salary income. Xiao Jincheng and Wang Yanghong edited the book *A New Theory of Land Management* published by China Planning Publishing House in 2007. In the book, they proposed that the urban construction companies that implemented centralized requisition of the lands of the peasants in the suburbs in the process of urbanization should attract the peasants to participate in the companies’ projects through evaluating their land use rights in terms of money and converting them into the companies’ shares so that land-lost peasants could enjoy the income from land operation. In the article “Make Income from Property Reach More People” mentioned in the above, the author highlighted and recommended the views and positions of Wang Jue, Xiao Jincheng and Wang Yanghong.

In 2011, the author published the article “Pushing Forward the Reaching of Income from Property to the Public and Deepening the Reform of Income Distribution System” in the second issue of *Comparative Economic and Social Systems*. In the article, he further proposed that, when people promoted the industrialized operation of agriculture and urbanization construction, the companies that implemented the centralized requisition and operation of lands should better not adopt the measure of buying out land use right to acquire the lands of the extensive urban and rural disadvantaged groups, such as peasants, migrant workers and households relocated due to building demolition in urban development projects. Rather, they should adopt the method of the participation in the companies’ projects through evaluating their land use rights in terms of money and converting them into the companies’ shares so that the peasants, migrant workers and households relocated due to building demolition in urban development projects would not have the sense of loss caused by losing lands in their mind and, at the same time, enjoy the benefits brought about by land operation.

9. About Lewis Turning Point and Middle Income Trap

The Lewis turning point was proposed in 1968 by famous British economist Arthur Lewis. It was said in this theory that, when a developing country reached a certain stage in pushing forward the processes of industrialization and urbanization, the supply of rural surplus labor would turn from abundance to exhaustion, wages would rise increasingly, and population dividend tended to fade out. Such a turn was called the Lewis turning point. If the country did not transform the mode of economic development in this period, economy would go down or fall into long stagnation. According to the study of western scholars, when the per capita GDP of a country reached USD 4,000, it entered such critical period. If the country failed to respond properly, it would definitely fall into a so-called middle-income trap. It was reported that only Japan and the Four East Asian Tigers successfully got over such trap and rose to high income countries and many countries such as Latin American countries still stayed in the trap until now. China already developed into the second largest economy in the world and its per capita GDP reached USD 4,000 in 2010. *Business Week* in the USA published an article on June 10, 2010 saying that China's manufacturing industry reached the Lewis turning point. The article claimed on the basis of the situation that labor shortage emerged in some places in China that China's low wage advantage had disappeared and it was now moving toward the so-called "Lewis turning point". In fact, the issue already caused the attention of Chinese economists. Although Chinese scholars had slightly different understandings and estimations about this issue, they all believed that middle income trap was a serious challenge that China faced within 5–10 years in the future.

Ba Shusong published an article in *Economic Plaza* on May 6, 2001 and believed that China "already silently got over the Lewis turning point". But the situation "raised urgent demand on the transformation of the mode of economic development from a factor-driven one to a productivity-driven one". Li Jian'ge quoted his own survey on over 3,000 villages nationwide in the study on the issue of "labor recruitment difficulty" in coastal regions published at the website NETEASE.COM on July 31, 2010 and pointed out that "the population dividend in China's manufacturing industry is gradually disappearing. The Lewis turning point already arrives at an early time point." Cai Fang believed in his article published at Goodness' website on July 2, 2010 that "Chinese economy is arriving at the Lewis turning point. If people cannot find the method to respond to it, it will definitely face the middle-income trap." Many other scholars also emphasized the risk of middle-income trap. Hu An'gang published an article "Speeding up the Transformation of Development Mode and Getting over Middle Income Trap" in *Economic Information Daily* on July 1, 2011 and quoted Li Keqiang's speech published in *People's Daily* on November 15, 2010 entitled "Deeply Understanding the Theme and Main Line of the *Suggestions* and Promoting Comprehensive, Coordinated and Sustained Economic and Social Development": This period was "both an important stage in which China develops on a winding course from a middle income country to a moderately developed country and a critical stage in which it confronts increasing contradictions and advances along a bumpy road". Hu An'gang also made further analysis from the four angles of economy, society, politics and international affairs: In the area of economy, the stage was a period of the throes of economic transition in which the costs of various

factors was on the rise and potential growth rate dropped largely or even continued to be depressive. In the area of society, the gap between the rich and the poor expanded and social contradictions became prominent. In the area of politics, the period was a period of high probability of political risks. Many countries suffered frequent political turbulences in this period. In the international affairs, this period was one of the test of international pressure in which a country was confronted with strong external pressure or even intervention.

In an interview, Lin Yifu, chief economist of the World Bank, emphasized that China needed to address well the challenges in three aspects so as to avoid middle income trap. First, China needed to continue to promote technical innovation and industry upgrading and continue to retain its competitiveness in the process. Second, it needed to address well the issue of income distribution. Otherwise, it could easily cause social contradiction. Without a stable social and economic environment, it was impossible for China to achieve economic development. Third, China needed address well the relationship between economic growth and environment. He emphasized that, as long as China proceeded on the road that it took from the reform and opening up and addressed well the challenges in the above three aspects, “China can avoid middle income trap”. He also predicted that Chinese economy would retain quick and steady growth within about 20 years in the future.

It was worth highlighting that Song Li proposed from the domestic and international perspectives the two major challenges that China faced and also his strategic thoughts on them in his article “Getting over the Two Major Traps of ‘Surpassing the Second Place and Catching Up with the First Place in Economic Aggregate’ and ‘Upper Middle Income’” published on February 23–24, 2011. He suggested that, while China faced the middle-income trap, Chinese economy was developing into the second largest economy in the world and thus it encountered the trap period of “surpassing the second place and catching up with the first place in economic aggregate” at a very inconvenient moment. He indicated that history told us that both the Soviet Union and Japan failed to challenge the first place of the USA in terms of economic aggregate. And he believed that, as China faced the task of getting over the two traps of middle income and “surpassing the second place and catching up with the first place in economic aggregate” at the same time, it needed to pay more attention to various challenges that it faced when “surpassing the second place and catching up with the first place in economic aggregate” while it promoted industrial optimization and upgrading through technological innovation and implemented the economic transition from an economy driven by external demand to one driven by internal demand. He also believed that avoiding the catch-up trap that Japan experienced was the necessary prerequisite for getting over middle income trap. He made strategic proposals on getting over catch-up trap: First, people should not exaggerate and overestimate the standard of China’s economic aggregate. They needed to be clearly aware of the huge gap of China with other developed countries in terms of per capita standards. Second, they should pay great attention to improving international public relations and state image and promote winning the general support of the idea of harmonious world. And third, they should treat the USA and the western world with an attitude of cooperation rather than competition and of reconciliation

rather than liquidation. In addition, they should gradually reform the distortion to systems and policies caused by disequilibrium model over long time at the level of domestic system and strategy and make great efforts to build the driving power mechanism for long-term sustained development and its system guarantee.

It should also be highlighted that Liu Shijin published an article “Trap or High Wall” in the third issue of *Comparative Studies* in 2011. In this paper, he sorted and analyzed a large amount of historical data and classified relevant countries into five types on the basis of the order of economic takeoff, development strategy, economic system and development type and course. He believed that the radical reason why some countries fell into middle income trap laid in that there were serious defects in their basic industrialization framework so that industrialization process could not continue, high growth could not be retained, and “abnormal drop” occurred. But some other countries successfully got over middle-income trap and also “high walls” and entered the rank of high-income countries. At that moment, economic growth speed would drop inevitably but such drop was a kind of “natural drop”. He analyzed the mode and strategy of economic development of China and believed that China could successfully get over middle income trap. But there were some tough challenges for China to get over “high walls” and enter the rank of high-income countries. First, once growth speed lowered, the problem of low efficiency, which was covered up for a long time in the past, would be exposed and become prominent. And second, the expansion of market was limited under the current development mode. There were increasingly prominent issues such as insufficient market incentives for supply, slow accumulation of human capital, and inadequate channels for workers to participate in modernization. Therefore, he suggested that people should promote the transformation of development mode with “participation-promoted reform”.

III. Establishing the Economics with Chinese Characteristics—Socialist Market Economics and the So-Called “China Model”

In China, the historic process of creating the new system of socialist market economy required the Chinese people to establish their own transition economics and socialist market economics and provided sufficient possibility for them to achieve it. China established socialist market economy under the condition of concurrently carrying out three transitions. Compared with the developed capitalist market economies in the West, China’s transition economy and socialist market economy showed large difference and gap in terms of economic structure and market maturity. In the report of the 17th CPC National Congress, President Hu Jintao proposed that “the outlook of scientific development has been proposed through taking the basic national situation of the primary stage of socialism as the start point, summarizing China’s development practice, drawing from foreign development experience, and adapting to new development requirement.” In order to establish China’s transition economics and socialist market economy, it was important and necessary to draw from the practical experience of western countries and western economics. But what was more important was to take the basic national situation in China as the start point. It was impossible to find ready answers about the issues that China faced from western economics.

In the above, the author said that China borrowed many useful things from western economics. But borrowing was not equal to copying or replicating. The borrowed things could grow and yield results only when they were combined with China's national situation. In the 1990s, some people in the international community boasted about the so-called Washington Consensus proposed by John Williamson, research fellow of the Institute for International Economics in the USA, in 1989. These people peddled ideas filled with neoliberalism and preached privatization. Their views were completely incompatible with China's national situation. There were also international personages with good will who valued China's special road and experience. For example, Joshua Cooper Ramo, former editor of the *Time* magazine in the USA, established the Beijing Consensus in 2004. But he seemed not to have sufficient understanding on China's complicated national situations. Chinese people could and should not expect foreign masters to fulfil for them their own historical mission of establishing transition economics with Chinese characteristics and socialist market economics. The historic mission was put by the history onto the shoulders of the workers in theoretical and practical economic work in China. This was a mission that Chinese economists could and should not shirk.

Some famous Chinese economists, such as Xue Muqiao, Yu Guangyuan, Ma Hong, Liu Guoguang, Gao Shangquan, Dong Fureng, Liu Shibai and Gu Shutang, already called for establishing economics with Chinese characteristics. Some scholars were making efforts in this aspect. For example, the China Institute for Reform and Development, led by Gao Shangquan and Chi Fulin, committed themselves to the study on China's transition economy and proposed that the characteristics of China's transition economy were "market orientation and progressive mode". And in 1995, they published the book *Research Reports on China's Transition Economy* with the Reform Publishing House. Over a dozen of very insightful research reports were published on the theory of transition economy and relevant important economic issues in the book. For another example, Wu Jinglian, Zhou Xiaochuan and Rong Jingben published the book *The Road to A Market Economy: Comprehensive Framework and Working Proposals* with the Central Compilation and Translation Press in 1996. They carried out systematic research on the basic thought, general design and various reform supportive measures of China's transition from planned economy to socialist market economy. These research results positively pushed forward the study on transition economics and made fundamental preparations for establishing socialist market economy in the area of empirical study. Chen Dongqi and Li Maosheng wrote *On Socialist Market Economy* as an academic attempt, which was used as the textbook of the postgraduate students in the Chinese Academy of Social Sciences.

Some economists carried out more theorized exploration on transition economics and socialist market economics. For example, Zhang Shuguang, Sheng Hong, Fan Gang and Lin Yifu drew from neo-institutionalism and public choice theory, took transition process as an object of study in economics and the analysis of interest distribution as the lead in the study, and analyzed how different interest groups resolved their interest conflicts by means of public choice in the reform process. They took such interest conflicts as the cost of the transition process and carried out

cost-benefit analysis on transition process. They believed that progressive change would be a choice in which people would meet less resistance and paid less cost.

Dong Fureng and Wu Jinglian summarized socialist market economy at a higher and more abstract level. They used a simple formula to describe the essence of socialism: socialism = fairness + market economy or fairness + efficiency.²⁹ Obviously, this equation would become a main line always present in the socialist market economics that they designed. In his book *A New Theory of Economics*, Liu Guoguang explained socialist market economy as “a market system with macroscopic management and planned regulation”. In his eyes, the “socialism” in socialist market economy was embodied with “macroscopic management and planned regulation”. But in fact, modern market economy was already integrated with macroscopic regulation. The “socialism” in socialist market economy was mainly embodied with basic socialist economic system, namely “taking public ownership as the dominant one and achieving the joint development of multiple ownership economies”. In the long exploration of economic reform in China, people once proposed in the 1980s the conception of “combining planned regulation with market regulation”. In 1992, Deng Xiaoping proposed the target model of “socialist market economy”, which represented a large step forward from various explorations in the past. It emphasized that market mechanism should be taken as the fundamental instrument of the distribution and redistribution of social resources under basic socialist economic system.

For many years, the author advocated the study of socialist market economics and proposed another formula: Socialist Market Economy = Public Ownership Dominance + Market Economy. With the practice in reform for several dozens of years, the Chinese people achieved new development in their understanding on the basic economic system of socialism: It was not built solely on the foundation of completely dominating public ownership economy but would be built on the economic foundation of taking public ownership as the dominant one and achieving the joint development of multiple ownership economies. And taking public ownership as the dominant one was the kernel part of the basic economic system of socialism. The biggest difficulty in theory and in practice was the combination between this kernel part and market economy. Moreover, what was more important was that the maturity and development of socialist market economy would drive the successive establishment and quick growth of various social security funds controlled by the state, such as pension fund, medical care insurance fund and unemployment insurance fund, and also the constant emergence of various other public funds, such as investment fund, children welfare fund, disabled people fund, college fund and scientific research fund. These funds would become increasingly important institutional investors and also the main investors of more and more state-owned enterprises. This would create another form of realization of public ownership system—“fund ownership system” or “society ownership system”. This would be a form of public ownership system more complete than the current state ownership system or government ownership system because it provided the public with a new mechanism—“investor sovereignty”. The

²⁹*Economic Information Daily*, August 5, 1997.

above view was once called “financial socialism” or “fund socialism” by overseas scholars. The evolution of China’s state ownership system would generally follow the order of the following stages during the period of economic transition: state ownership system → state controlling system → fund ownership system or society ownership system. What was particularly important was that, as the author wrote a number of articles to elaborate, people could further realize the separation of administration from enterprise management with the public funds controlled by the state and the “fund ownership system”, with which these funds controlled and managed state-owned enterprises so that the government could thoroughly realize the transformation from an economic construction-oriented one to a service-oriented one.³⁰

In recent years, there was a great hype about the “China Model” in China and abroad. This was because China’s high-speed growth over 30 years shocked the world and people all explored and discussed the radical reasons of China’s success. Yu Keping and Dong Ping edited and published the book *China Model and the Beijing Consensus* in 2006. Pan Wei edited and published the book *China Model* in 2008. Hong Kong scholar Ding Xueliang published *Debating the Chinese Model* in January 2011. There were also a great multitude of articles discussing China model and most of them explored the reasons of China’s economic success from different aspects. But the author paid more attention to the opinions that held a negative or prudent attitude toward the formulation of China model. One type of such opinions believed that there was no “China Model” at all. For example, Prof. Chen Zhiwu, who taught abroad for a long period of time, published the book *Chen Zhiwu Talking about Chinese Economy* in 2010. He believed that China’s success eventually was determined by “the freedom of the people, private property right and market economy and the rule of law. This is a model common to the mankind. It is not some China model.” In his eyes, China did not have any choice other than taking the road of western capitalist market economy. The other type showed a prudent attitude toward the formulation of “China Model”. For example, Zhao Qizheng, former director of the State Council Information Office, and John Naisbitt and Doris Naisbitt coauthored and published the book *The China Model: A Dialogue between East and West* in 2010, in which he specifically disagreed with the boasting about the China model. He believed that, although China succeeded in realizing high-speed economic growth over a long period of time at present, there were still serious issues of embezzlement, corruption, environment pollution and polarization of wealth. It was still too early to talk about the China model. Zi Zhongyun published an article entitled “People Should Better Find the China Road rather than Boasting the China Model” in the fifth issue of *Internal References on Reform* in 2011. In the paper, he pointed out that

³⁰See Huang (2002); “Socialism with Chinese Characteristics—The Combination of Public Ownership System and Market Economy (Public Ownership System + Market Economy)”, *Economist*, Issue 5, 1998; “Shareholding System—A Good Form of Socialist Whole People Ownership System”, *Economic Research Journal*, Issue 4, 1989; Robert (1991); Huang (2000); “The Separation of Administration from Enterprise Management: Government System Reform under Socialist Economic System”, in *China Economic and Social Development Report in the Five Years in the Future*, CPC Party History Press, 2006; “Establishing Transition Economics with Chinese Characteristics and Socialist Market Economics”, *Economic Perspectives*, March 2009.

“foreign people only pay more attention to China’s current economic aggregate and competitiveness. They do not truly care about the wellbeing of all the Chinese people and they have never felt the problems and pains of the Chinese public. ... As Chinese citizens, should we become self-content and complacent about the praise about China model from foreign people?” The author himself agreed very much with the prudent attitude in the second type. As he explained in the above, the system and theory of socialist market economy with Chinese characteristics were still in its infancy. The problem of “mixing up the functions of government and enterprise”, in which the government possessed dual identities and functions of economic entity and political entity, was the system origin of planned economy in the past. And now it became a system hotbed for power-for-money deal, embezzlement and corruption. All these needed to be resolved through government system reform. The outcome of this reform would determine the outcome of the institutional and theoretical innovations in “socialist market economy with Chinese characteristics”.

IV. Responding to the World Financial Crisis on the Basis of the Characteristics of Chinese Economy

- (I) Clearly Understanding the Nature of the World Financial Crisis and the Characteristics of Chinese Economy and Endeavoring to Make China Embark on the Road of Recovery First

Most Chinese economists believed that the financial crisis this time was in fact the crisis of virtual economy. It was caused by the excessive spreading of virtual economy in the USA and European countries. In China, real economy still dominated. So, it was not proper for people to assert carelessly that China was also in the crisis. What China suffered was only the slowdown of growth speed. The growth rate was still positive rather than negative. China did not take the direct attack from the financial crisis in the USA and European countries while the crisis directly caused another crisis in the real economy in these countries. This seriously affected China’s import and export. Therefore, Wu Jinglian believed that the financial tsunami overseas aggravated the economic difficulty in China.

Taking the basic national situation in China, namely the primary stage of socialism and socialist market economy, as the start point of their discussion, some Chinese scholars further believed that, as long as China responded properly, Chinese economy would recover first. For example, Zuo Xiaolei proposed in the article published in *China Securities Journal* on February 2, 2009 that “there are three major factors that support Chinese economy to recover first”. These factors were that China’s real economy had solid and steady basic advantages. China had substantial financial strength. It also had stable and reliable financial system and took smaller impact from international financial crisis. Huang Fanzhang published the article “Reviewing the Tendency of Chinese Economy with a Prudent but Optimistic Attitude” in *China Economic Times* on March 7, 2009. There were five reasons to such attitude. First, real economy dominated in China. Virtual economy was of smaller scale. And the opening up to the outside world in financial area was carried out at a steady pace. Second, most of China’s exports were the basic life supplies necessary to the residents in developed

countries. The tendency of dropping export volume would soon be contained or turned around. Third, there was huge potential in China's internal demand. Spurring up internal demand would become the main point of strength in responding to crisis. Fourth, China had huge domestic reserves and USD two trillion foreign exchange reserves, so it could adopt the strategy of "purchasing externally and promoting internally". And fifth, China faced the great opportunity to adjust industrial structure and implement the industrial gradient transfer from coastal regions to inland regions and thus develop inland economies. On July 31, 2009, Lin Yifu, deputy president of the World Bank, indicated to the reporter of the *Global Times* that China had huge financial potential and foreign exchange reserves and could get out of economic recession first. And he predicted that China's GDP growth that year would reach 7–8%.

(II) Drawing from the Framework of Macroscopic Regulation in the West on the Basis of China's National Situation and Proposing and Implementing a Series of Measures in Response

Facing the menacing international financial storm, the central authorities made resolute decisions and timely adopted proactive fiscal policies and moderately easy monetary policies. They also kept enriching, consolidating and improving the package plans for guaranteeing growth, expanding domestic demand, adjusting structure and benefiting the people's livelihood. These measures mainly included the following: The central authorities implemented the plans for the four trillion yuan investment program, structural tax reduction, home appliances going to the countryside and moderate adjustment of export tax rates. In addition, they also implemented ten major industrial adjustment and rejuvenation plans and the policies to develop high technology industrial clusters and enhance enterprise technological transformation. They also stabilized and developed agriculture and promoted the increase of the income of peasants. They formulated and implemented the policies to stabilize and expand employment policy and the measures to raise the retirement allowance and pension of retired cadres and employees and raise the standard of subsistence allowances and minimum wage. Obvious effects were achieved in the first half of 2010 in the implementation of such package plans.

Chinese scholars also drew from western theories and practices and proposed some meaningful views. For example, some scholars, such as Li Yiping, considered that the USA once was obsessed with the expansionary policy in Keynesianism so that stagflation occurred in the 1970s and warned that Chinese people should pay attention to preventing such Keynesianism dependence. Li's article was published in *China Economic Times* on July 14, 2009. Some scholars, such as Song Li and Wang Yuan, proposed that "it is necessary to make structural fine tuning to monetary policy" so that people could prevent asset bubble while expanding credit so as to promote the independent growth of economy. Song and Wang's article was published in *China Economic Times* on July 28, 2009.

After the World Financial Crisis passed, American economy was still in recession, unemployment rate stayed at a high level, and the so-called expansionary “quantitative easing monetary policy” implemented by the Federal Reserve caused huge inflation pressure to emerging economies including China. China’s CPI index exceeded 5% and 6% respectively in May and June 2011. Many workers in theoretical and practical economic work in China drew from the disinflation experiences and theories in western economics to make suggestions and proposals. For example, Wei Jianing pointed out in his article “China Faces Three Risks in Its Current Economic Tendency” published in *China Economic Times* on July 11, 2011 that there were three kinds of risks: The first one was stagflation risk. The second was hard landing risk. And the third was the risk of making the bubble bigger because people might worry about stagflation and ease monetary policy once again. Because of these risks, he advocated that China should draw from the policy of “monetarism” + “supply-side school” that the Reagan Administration had implemented in the USA in the past. The so-called “monetarism” policy mainly referred to raising interest rate and controlling currency and the so-called “supply-side school” policy mainly referred to lowering tax rate and invigorating enterprises.

(III) Positively Participating in the International Cooperation on Macroeconomic Policy and the Reform of International Monetary System

Before 1970s, western countries mostly followed Keynesian methods in macroeconomic regulation so that their economies avoided crises like the Great Depression in 1930s. Later, crisis or risk transmission mechanisms were also globalized as economic globalization process was quickly pushed forward. Under such circumstance, not a single country could keep its economy clear of a crisis, the only choice was to make international cooperation on macroeconomic policies across the borders. In the past, the author published articles for a number of times to formulate such international cooperation.³¹ And such international cooperation could be bilateral, regional or global in its size and be gradually pushed forward and enhanced from a primary level to an advanced level in its form. The countries could start with dialogue and information communication to increase the transparency of each other’s systems, policies and legislations. Then they could carry out policy consultation and policy coordination and then reach agreements or take joint actions. China positively participated in and carried out the international cooperation on macroeconomic policy. There were bilateral cooperation, such as the Sino-US Economic Cooperation Dialogue Mechanism, regional cooperation, such as China-ASEAN Finance Ministers and Central Bank Governors Meeting, and global cooperation, such as the participation in the G20 Finance Ministers and Central Bank Governors Meetings in Washington and London.

In the recent several years, the author further realized that such form of macroeconomic policy cooperation was not just a kind of meeting but a new mechanism

³¹See Huang (1998c); “Financial Globalization Needs International Cooperation on Macroeconomic Policy”, *China Economic Times*, June 29, 2002, “Economic Globalization Needs International Cooperation on Macroeconomic Policy”, *Macroeconomics*, July 2009.

required by economic globalization. In 2011, the heads of the state of the USA and China signed the Sino-US Joint Communiqué and called such meeting “macro-economic policy cooperation” for the first time. And it was written into an official document as a new mechanism. In recent years, the author also further proposed in his articles that, while the macroeconomic policy cooperation of the G7 was the breakthrough of old world economic order, the macroeconomic policy cooperation of the G20 meant the “incubation” and “embryo” of new world economic order.³²

Finally, it should be mentioned that China’s undertakings in building socialist economy were not completed at one go during over 30 years of the process of the reform and opening up. It was not a smooth journey, either. Rather, it was a profound revolution. Some people advocated taking the road of western market economy, implementing privatization and comprehensively practicing the withdrawal of state-owned enterprises and the entry of private enterprises. Some people even felt reluctant to drop traditional theories and planned economy. Therefore, in over 30 years in the past, three major debates on reform occurred. The first one occurred from 1980 to 1984. The second occurred from 1989 to 1992. And the third occurred from 2000 to the time before the 17th CPC National Congress in 2007. The first two debates centered round the themes of “planning and market” and “being capitalist or socialist in nature”. The third one was caused by some doubts or negations on prioritizing efficiency and the direction of market economy, which was triggered by the enlarging of the gap of wealth in the society. The indignation about “unfairness” was understandable. But turning back was absolutely not a way-out. In addition, people needed to pay attention to another potential danger or threat. It was the problem that the issue of the mixing up of administration with enterprise management and economic functions was yet to resolve in China’s state-owned enterprise reform. This problem left room for the collusion between government and businessmen so that it was difficult to control the emergence of corruption. The vested interests or crony capitalists were once the supporters of reform in the early period of the reform. Now the vested interests would be damaged when people needed to realize the thorough separation of administration from enterprise management and economic functions. These vested interests were once the driving power of reform but now they might become the resistance to further pushing forward and improving reform. All the issues above could only be resolved through further pushing forward reform and, in particular, through relying on resolutely pushing forward thorough government system reform. Such reform would determine the final outcome of China’s development. The Chinese people should hold high the great banner of socialism with Chinese characteristics, practically implement the outlook of scientific development under the guidance of the Deng Xiaoping theory and the important thought of the Three Represents, and continue to push forward the construction of socialist market economy.

In summary, the construction of socialist market economy in China was the unprecedented institutional and theoretical innovation carried out by the Chinese people through liberating the thought, advancing with the time, and breaking through

³²See Huang (2009); “Examining the Important Meaning of Macroeconomic Policy Cooperation from Sino-US Joint Communiqué”, *Economic Perspectives*, Issue 4, 2011.

the dogmatism of traditional Marxism and western economics under the great banner of socialism with Chinese characteristics. The author believed that, when China completed its triple transitions after several decades and also the moment when it completed the construction of socialist market economy, a brilliant banner would be flying high on the ancient lands of China on the horizon of the world's east end, with "socialist market economy and socialism with Chinese characteristics" written on it. China would write new magnificent chapters into the world's thesaurus of economics with transition economics with Chinese characteristics and socialist market economics.

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