

[CN] Fuqian FANG

Contact Information

Address : the school of economics of Renmin University of China

Zip Code: 100872

Telephone : 013911138115/010-82500237

Email: fangfq@ruc.edu.cn

Fuqian FANG, born in 1954, in Lujiang, Anhui Province, Doctor of Economics, Economics Professor of the school of Economics of Renmin University, tutor of a Ph.D. student.

His research interests mainly include western economics and Chinese economic issues.

Thoughts and Looking Back on China's Thirty Years of Economic Regulation

[CN] Fuqian FANG

Abstract: Thirty years after China's reform and opening up to the outside world, we can divide China's economic regulation philosophy and economic regulation method into three stages. The reformation process is connected to China's economic transformation, which was a transformation from a highly centralized planned economy to a socialist market economy in transition. Changes in the method of economic regulation have brought changes in economic performance, and leave us with much to consider.

Keywords: Regulatory methods; System reforms; Planned regulation; Market adjustment

Before 1979, China had implemented a highly centralized planned economic system. In fitting with this system, the Chinese government's economic management was carried out through mandatory plans which could directly control the economy, reliance on planning methods to implement overall economic balance, and coordinating significant proportion of the relationships. In this system, allocation of resources and economic operations were carried out by "control," not "adjustment": "What to produce," "How to produce," and "Who to produce for," were the basic economic questions of the time. These questions were all to be resolved by planning departments; there was room for, or even basis for, adjustment according to market mechanisms. Because of this, strictly speaking, the pre-reformation Chinese economy had no normative economic regulation.

The Third *Plenary Session* of the 11th Central Committee of the Communist Party produced a decision of historical significance, "from 1979 onwards, the focus of the whole party's work shifted to one of constructing socialist modernization." It was this decision that initiated the historical process of China's opening and reform, and caused market regulation to slowly enter our economic lives.

1. A brief review of thirty years of Economic Regulation and Control

When looking at economic regulation philosophy and methods, we can break the thirty years' process of reform into three stages.

Stage one: From the Third *Plenary Session* of the 11th Central Committee Meeting to the Third Plenary Session of the 12th Central Committee Meeting.

Although the Third *Plenary Session* of the 11th Central Committee Meeting hadn't completely denied or eradicated the planned economic system, it recognized the drawbacks of the system and started to introduce market regulation. The Third Plenary Session of the 11th Central Committee Meeting pointed out: "Nowadays, one serious disadvantage of China's system of economic management is that power is too concentrated, leaders should be bold in decentralizing, letting the country's local industrial and agricultural enterprises to exercise more management authority under the guidance of our overall, unified plan. We need to proceed vigorously in order to streamline all levels of administrative economic institutions, transmitting most of their authority to entrepreneurial professional corporations or joint companies. We should resolutely implement a way of handling affairs according to economic laws, which places importance on the value and role of these laws.....¹" Here, "a way of handling affairs according to economic laws, which places importance on the value and role of these laws..." allows places and enterprises to "have more authority when it comes to operations management." In reality this refers to the role of exerting market mechanisms and market regulation; although at the time there was no reference to "market mechanisms" and "market adjustment."

The sixth Plenary Session of the 11th Central Committee meeting (held in June 1981) proposed public ownership based on a planned economy, and expressed support for market mechanisms. The CCP's Twelfth Formal Report (September 1982) referenced "taking the planned economy as the mainstay and market regulation as a supplement," and viewed "correctly implementing the principle of the planned economy as the mainstay and market regulation as a supplement" as an "essential problem of the economic system reform." Emphasis was placed on "Correct Delineation of the scope and limits of mandatory plans, guiding plans, and market regulation."

In order to fit the need to set up a new economic management system, one that would allow market mechanisms to play a regulating role, before and after the Twelfth Plenary Session, China formed plans for step-by-step implementation of price system and price management reform, labor system and the wage system reform, expansion of the autonomy of localities and enterprises reform, the development of a multi-ownership economy and attraction of foreign investment, and promotion of a household contract responsibility system in rural areas. These reforms resulted in a gradual integration of free market factors into the planned economy. China's economic management system and regulation methods started to transition from a system which was a "centrally controlled planned economy" to a

1 Literature Research Center of Central Committee of The Chinese Communist Party, ed.(1982), " Selected important documents since the Third Plenary Session of the 11th Central Committee of the Communist Party " , pp.6-7 , People Publishing House, Beijing.

“mainly centrally controlled economy, supplemented by market adjustment.”

On the whole, before the Twelfth Plenary Session of the Central Planning Committee, China’s economic management system and regulation methods were still largely led by planning. Market regulation played a supporting role, one of making up for the deficiencies in the planned economic system, and thus its scope was very small. This can be observed from the control practices of the Chinese government after the first round of economic fluctuations. From 1979 to 1981, China’s economy was obviously overheating, investment in fixed assets was rapidly expanding, the economy was growing at too fast a pace, and prices continued to rise. In the face of this overheating, the Chinese government implemented macroeconomic regulation which focused on the use of mandatory plans. For example, the government used executive orders and building approval procedures to postpone a number of infrastructure projects, strictly prohibit new infrastructure projects, and substantially reduce the capital investment budget, defense spending, and administrative expenses.

Stage Two: From the 3rd Plenary Session of the Twelfth Central Committee Meeting to the Fourteenth Central Committee Meeting

“The CPC Central Committee Decision About Economic System Reform,” passed at the Chinese Communist Party’s Third Plenary Session of the Twelfth Central Committee Meeting, defined the Chinese socialist economy as a “Planned commodity economy based on public ownership.” This decision recognized that during a long historical period, “On the whole, our national economic plan can only be a rough outline, and must be flexible. It can only work through adjustment to achieve overall balance and adjustment of the means and methods of governing an economy. Our large-scale focus should be proper management, and our small-scale focus should be opening up and loosening restrictions ,.....1” Further, in the party’s official document, this was the first time that the concept of “Macroeconomic regulation” was used. The CCP’s Thirteenth Report (October 1987) clearly proposed to “gradually perfect a macroeconomic regulation system based on indirect management.” This was the concept of “The nation regulates the market, the market guides the enterprises,” a concept which emphasized that “the scope of the roles of central planning and the market covers the whole society.” The Seventh Plenary Session of the Thirteenth Central Party meeting (December 1990) further put forward the philosophy of "Combination of planned economy and market regulation."

At that stage, we paid more attention to the use of economic instruments, rather than mainly relying on administrative measures to regulate the economy. Economic instruments served as a primary means of control. When we speak of economic instruments (economic levers) of that time period, we refer to prices, taxes and credit.

1 Literature Research Center of Central Committee of The Chinese Communist Party, ed.(1988), " *Selected important documents since the Twelfth Central Committee Meeting of CCP* ", p.568, People Publishing House, Beijing.

On October 4, 1984, in order to set up a new economic management system and new control method, the State Council approved the National Development Planning Commission's "Temporary Regulations On Improving the Planning System." The first large-scale reform in China's planned management system was carried out in accordance with this "requirement." The purposes of this reform included: decrease the scope of the mandatory planning orders, abolish a number of mandatory production plans, cancel the majority of prescriptive prices for goods and services, remove much of the mandatory distribution of materials, and reduce total planned investment. From 1985 onwards, construction projects funded by the State budget switched to bank loan funding schemes; this switch was referred to as allotment replaced by credit.

Through this series of changes, market regulation's scope and occurrence rate expanded to a large degree; investment allocation and economic operations played a bigger and bigger role in the market economy.

Since before the 1992 14th Meeting, mandatory-planned products as a percent of total industrial output had decreased to just 16.2%; the ratio of "guided" products had increased 42.9%. The ratio of products whose production was guided solely by the market increased to 40.9%. For publicly owned ventures, the ratio of mandatory-planned fixed investments decreased to about 50%, decreasing to just 27% of all of the total funds allocated for these types of fixed investments.

In this period, the Chinese economy experienced two relatively major fluctuations, in 1984-1986 and 1988-1990. The market forces at the time were not strong enough, and planned measures naturally conflict with market mechanisms. Further, we lacked experience in developing a commodity economy. These three factors combined meant that the results of controls enacted to address fluctuations in the economy of these were not satisfactory. But, during this time, economic system reform had some important results: the dual-track price system was stopped, and price reform succeeded. By the end of 1991, over 80% of China's products and services were price liberalized; their prices were set by the market. The initial implementation of price liberalization laid a foundation for resource allocation and economic operation of market adjustment.

Stage Three: The Fourteenth Central Committee Meeting (October 1992) to Present

The Fourteenth Central Committee Meeting was clear in putting forth "the Chinese Economic System Reform's goal of building a socialist market economy system." Based on this goal, the Fourteenth Central Committee Meeting's report confirmed that the method of regulation would be "establish a basic role for the market within the system of socialist macroeconomic control, ensure that economic activities follow the requirements of laws of value, and adjust changes in the supply and demand relationship; through the functions of price levers and competition, efficiently allocate resources, and use pressure and incentives to enact "survival of the fittest" among companies; utilize the market's advantage of sensitivity and quick reaction to market signals, promote the timely coordination of

production and demand. We also have to recognize that the market has its own weaknesses and negative aspects. We must strengthen and improve our macroeconomic control” 1

“The CCP Central Committee’s decision on several questions about building a socialist market economy system,” passed during the 3rd session of the Fourteenth Central Planning Meeting, proposed to set up capital and labor markets: “build a system that mainly uses indirect methods to improve our macroeconomic control system.” Here, “indirect methods” means macroeconomic policies. The “decision” clearly points out that “The government will utilize economic means, legal means and necessary administrative means to manage the national economy, indirectly interfering in enterprise and management activities.” 2

In order to establish a socialist market economic system and its corresponding economic control system, starting in 1994, implemented an even deeper reform in the areas of the fiscal and taxation system, financial system, project management system, investment system, etcetera. Through a series of reforms and adjustments, commodity markets, including the capital (financial) market, including the various factors of production were gradually established within the market; commodity prices and market prices of production factors gradually reflected the scarcity of resources and the supply-demand relationship; enterprises gradually became independent decision-making, autonomous, self - profit and loss of micro-economic entities; and the central bank system and commercial banking system were gradually established. In reaction to this new market economic system, modern administrative and taxation systems began to form.

Since the CCP’s Fourteenth Central Planning meeting, China’s economic control methods have gradually transformed to a system of macroeconomic control based in market mechanisms. On one hand, allocation of resources and economic activities was changed from being mainly adopted from planned control to being ultimately based in market mechanisms. Until 2002, the government-controlled portion of total sales of retail of consumer goods decreased to less than 4% from 97% in 1978; the proportion of market pricing increased to above 96% from less than 3% in 1978. In terms of agriculture and sidelines, the total sales controlled or guided by the government dropped from 92.6% in 1978 to around 2%, the amount of market pricing of these products increased from 5.6% of total products in 1978 to 97% of total products today. As for total production materials sales, the ratio of government guided and controlled materials dropped from 100% in 1978 to around 6% today. Today, the ratio of these guided by the market is around 92%. Since accession to the World Trade Organization, the degree of marketization of China’s production factors significantly improved, a more equitable trading environment has been created, the financial

1 Literature Research Center of Central Committee of The Chinese Communist Party, ed.(1996), " Selected important documents since the Fourteenth Central Committee Meeting of CCP " ,Vol. A, page 19, People Publishing House, Beijing.

2 Literature Research Center of Central Committee of The Chinese Communist Party, ed.(1996), " Selected important documents since the Fourteenth Central Committee Meeting of CCP " ,Vol. A, page 530, People Publishing House, Beijing.

sector has become more open, and the economic marketization on the whole has increased. According to the Beijing Normal University's Economics and Resource Management Research Institute's "2005 Chinese Market Economic Development Report," in 2003 the Chinese economy's degree of economic marketization was 73.8%.¹ On the other hand, in the course of economic operation, the government's emphasis on strengthening management on both the micro and macroeconomic levels through economic, legal and necessary administrative means, has caused the government choose in most cases to manage the economy on the macro scale instead of on the micro scale.

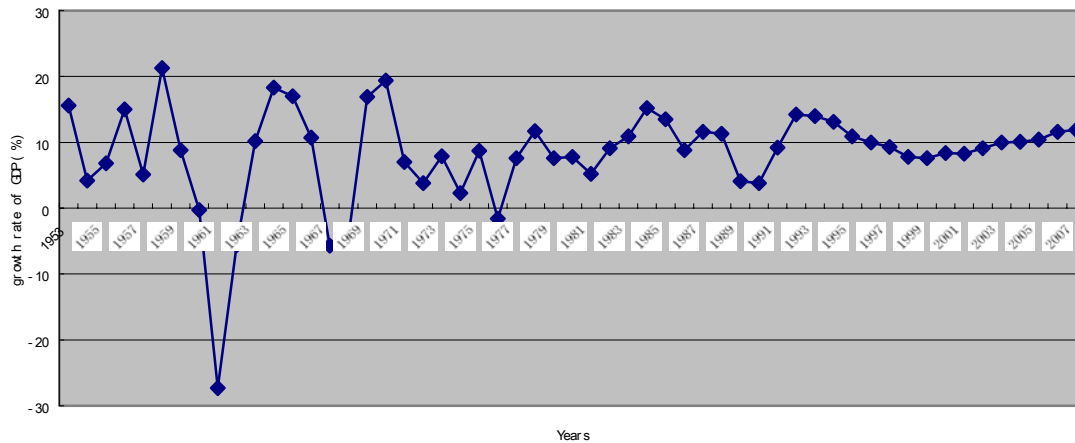
2. Thoughts on 30 years of Economic Regulation

China's economic regulation and control methods from the beginning of reform and opening-up plans to control the market mainly as a supplement to a market adjustment on the basis of macro-control, which is thought economic management and economic regulation and control mode of a great change and transition, it is a revolution not be overemphasized. 30 years of economic reform and the practice of regulation has brought us much inspiration and reflection.

Chinese economic regulation methods have changed from the planned economy assisted by market mechanisms of the Reform and Opening up into an economy based in market mechanisms but controlled at the macro level; this is a great change in economic management thought and economic regulation methods. To say that this is a revolution would not be an overstatement. Thirty years of economic regulation reform has brought us much inspiration and reflection.

At first, *The change in economic regulation methods has brought about a change in economic performance*. Recalling the process of 30 years of reform and opening-up, we can easily find that resource allocation control has changed from a planned to a market adjusted allocation; because of this, microeconomic and macroeconomic performances have both been in a state of constant improvement. At the micro-economic level, individuals' and businesses' activity continued to increase, business vitality and development capacity have grown, state-owned enterprises have made the transformation from large-scale profit losing enterprises to large-scale profitable enterprises, the supply of merchandise has become increasingly abundant, the quality of merchandise is constantly improving, the market has become more and more prosperous, and people's income and welfare has increased steadily. At the macroeconomic level, economic performance and economic growth have become more and more stable, the magnitude of fluctuations in the economy has decreased, and the losses caused by economic fluctuations have also been reduced.

1 *International Finance Newspaper*, August 15, 2005.



Fi

Figure 1. Growth and fluctuation of China economy since 1953

Source: Compile Statistical Information for New China 50 Years & China Statistical Yearbook (2008), National Bureau of Statistics

We can see from figure 1 one that: (1) Before 1979, China's economic growth shown clear signs of ups and downs, the biggest drop occurring in 1958, a drop from 21.3% to -27.3% in 1961, which represents a decrease of 48.6%; After 1979 China's economic growth is more stable; (2) Before 1979, China's economy experienced three periods of negative growth, these are the periods of 1960-1962, 1967-1968, and 1976; Since 1979, China has not experienced negative growth; (3) During the last 15 years of the thirty years of opening up and reform (1992-2007), the economic fluctuations have been less than the first 14 years (1978-1992). This shows that China's economic management system and economic regulation methods reform is in line with the objective requirements of economic development; marketization tends to help to improve economic performance.

Second, *This 30 years of Chinese economic management system and economy regulation methods was started around the question of how to manage the relationship between the government, market and business relationship.* In the decades of planned economy, there was no space for the market or market mechanisms; the whole country was a large factory, and the government and (state-owned) enterprises had a patriarchic relationship. After the Reform and Opening Up, we have implemented a series of reforms, such as decentralization, enterprises paying the governments only tax rather than all of profits, the sub-contracting system, the shareholding system, the establishment of modern enterprise system, etcetera. These were all implemented in order to solve the problem of the relationship between enterprise and government. The CCP's thirteenth Central Planning Meeting also envisaged the relationship between these three when it put forth the idea of "National Market Regulation, Market-guided enterprise." Although this formulation brought with it a distinct planned-economy tinge, when we have transformed from a socialist economy, we will finally appropriately assign roles to the government, market, and

enterprise in this relationship.

The key to sorting out this relationship is to identify and sort out the following three dynamics within the relationship: planned (nation) and market, society and people, government and economy. That is to say, the change in economic regulation methods is a political economics or new administrative economics issue, and it is not simply an economics issue. Essentially, this thirty year process of reforms and opening up is our process of revising and deepening our knowledge about these three aspects of the relationship; in this process, we are continuously and actively probing and practicing. Our practice proves, when these three aspects of the relationship are sorted out, our economy and society will be strong and rapid; when these three aspects are not sorted out correctly, our economy will face setbacks, or may even halt. Today and in the future, how to sort out these three aspects will be the main point of our efforts.

Third, *China's Socialist market economy has its own special features; because it was founded as mainly a public system, upon the basis of a public system economy.* This type of system determined that China's resource allocation and economic operation would not adopt a laissez-faire or completely liberalized market regulation system. Instead, we chose to implement government regulation, instead of a government "adjustment" model. Here, "regulation" means a socialist system whose demand is determined by the public system. This implies that in China's market economy, the government's capabilities and role may be larger, and the government's intervention in the economy may be more frequent. Chinese economic regulation method not only cannot copy a new scheme of liberalization, it also cannot copy a new conservative game plan; we need to have an economic regulation that is uniquely Chinese.

In the process of building and perfecting our socialist market economy, how to appropriately assign roles, and efficiently transform the government's function, how to scientifically regulate in order to adjust the market economic development's needs and also adjust the socialist system's needs, are great questions for which we seek answers. On the whole, Chinese market economics' "regulation" should be separated from the "regulation" of a planned economy. "Regulation" of a market economy is exercised more through market means and legal means to "influence," and "guide," consumer and producers' behavior, and "influence" and "guide" resource flow, instead of directly intervening. Thus, we shouldn't strengthen regulation or force compliance with top-down orders.

Finally, *To succeed at economic regulation, and ensure that our national economy develops well and quickly, we also need to strengthen our efforts in two aspects. One aspect is to deepen our understanding of the special features and rules of the market economy.* To do this, we need to continuously conduct research about the microeconomic basis for our economy. We need to research the incentives and special

behaviors, and research macroeconomic cause and effect relationships as well as the corresponding relationships and quantity relationships. Another aspect is to constantly research economic regulation's essential qualities. This includes research on selection of economic regulation means economic policy coordination and collocation, regulation timing and strength, etc., in order to constantly improve our means of control. Looking back on the few economic fluctuations of the 1990's and the control methods that were employed, we can see that our regulation methods are not satisfactory in the areas of predictably, science, and foresight; our understanding time lag and administrative time lag is too long.

The market economy is a complicated system, we still are not completely clear about many of its relationships, mechanisms and special features. Starting in 1992, China's has implemented market reforms for less than 20 years, because we had a socialist economy, we can be considered a "green hand" at market reforms, with no precedent for these types of reforms in our country. This fact tells us that in order to implement the plan to "Form a macroeconomic control system that benefits technological development," a goal of the CCP's 17th Central Planning meeting, we will still need to continue to research the economic regulation and control practices of market economies and developed countries. We will continue to learn useful things from Western economies, and constantly learn from the experience of developed countries. We need to explore the scientific concepts of development and their uses to serve as a guide for China's socialist market economy, and strive to construct and develop of the necessary means of control for China's socialist market economy.

Main References

1 .Literature Research Center of Central Committee of The Chinese Communist Party, ed., " *Selected important documents since the Third Plenary Session of the 11th Central Committee of the Communist Party* " , People Publishing House, Beijing, 1982.

2 .Literature Research Center of Central Committee of The Chinese Communist Party, ed., " *Selected important documents since the Twelfth Central Committee Meeting of CCP* " , People Publishing House, Beijing, 1988.

3 .Literature Research Center of Central Committee of The Chinese Communist Party, ed., " *Selected important documents since the Fourteenth Central Committee Meeting of CCP* " , People Publishing House, Beijing, 1996.

4 . China National Bureau of Statistics, ed., *Compile Statistical Information for New*

China 50 Years, China Statistics Press, Beijing, 1999.

5 . China National Bureau of Statistics, ed., *China Statistical Yearbook(2008)* , China Statistics Press, Beijing, 2008.

6 . *International Finance Newspaper*, August 15, 2005.