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## **On Innovation in Practice of Socialist Macroeconomic Regulation and Control**

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**Abstract:** China's macro-control, supposed to be under the guidance of Marxism, should impose specific meaning of the socialist system. Socialist macroeconomic control should not only understand the commonness, relation and difference between the general circulation of commodities and capital flows; but also understand the fundamental difference between the flow of public capital and private capital. The practice and innovation of macro-control requirements resolving the imbalance of financial credit by solving the imbalance of production, combining the adjustment of the industrial structure and the improvement of the basic socialist economic system; through maintaining the dominant position of public ownership, achieve the expansion of consumer demand, as well as the revitalization of public ownership economy as the key measures of expanding employment, thus maintain the unity between national economic independence and opening to the world.

**Key Words:** Macro-control, Theoretical innovation, Public ownership, Independence

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At present, the international financial crisis is still spreading, and has not yet bottomed out. The Operation of Chinese national economy is facing difficulties, and must be overcome by macro-control; so, the Government put forward the basic idea of "expanding domestic demand, readjusting the structure, expanding employment, improving people's livelihood". I think that Chinese macro-control contains the specific meaning of socialist system, thus can not be understood by Keynesian. We should know that Keynesian and Neo-liberalism have the common ills, that is, they regard Capitalism as an eternal reasonable economic form, which can not distinguish the general circulation (referring to the flow of commodities and currency) and capital flows. Therefore, they can not guide the scientific macroeconomic control.

Marx's "*On Capital*" tells us, in the face of a market economy, it is not only to see the commonness and relation between the general flow and capital flow (including the relationship of commodity and currency exchange), but also to understand that there are fundamental differences between them in the purpose (the former is personal consumption, the latter is regarded as the pursuit of surplus value), the content (the former is exchange value, the latter is automatic proliferation of independent value), the continuity (the former is limited to personal consumption, and the latter is in pursuit of surplus value forever) and the holders (the former ones are the small producers or consumers, the latter ones are capitalists).

Socialist macroeconomic control should not only understand the commonness, difference and relation between the general circulation of commodities and capital flows; but also understand the fundamental distinction between the flow of public capital and private capital, and it lies in that the production relation in the circulation of public capital is public ownership, rather than private one. Clearly, there is a fundamental difference between macro-economic movements of the socialist market economy in which the public capital accounts for the main status, and macro-economic movement of capitalism.

Therefore, macroeconomic control of the socialist market economy must go beyond modern capitalist one, and accomplish the following innovations in practice.

## **I . Solve the imbalance of financial credit by solving the one within the production field.**

1. We must distinguish the financial crisis and special currency crisis. We should not only look into the monetary and financial areas to find the financial crisis. Max pointed out, "the monetary crisis, defined in the text as a particular phase of every general industrial and commercial crisis, must be clearly distinguished from the special sort of crisis, also called as a monetary crisis which may appear independently of the rest, and can just affect industry and commerce by its backwash. The pivot of these crises is to be found in money capital, and their immediate sphere of impact contains therefore banking, the stock exchange and finance."<sup>1</sup> Modern financial crisis is defined in nature as the former currency crisis which was pointed out by Max, that is, the economic crisis which connects with the production, the commercial crisis and performs as the credit crisis in the area of currency circulation, rather than a special currency crisis taking place separately in the field of currency circulation. In Marx's era, the financial capital in modern sense had not really taken into shape, so Marx just stressed the necessity to distinguish the two different kinds of currency crises. The currency crisis acted as "a special stage of general production crisis and commercial crisis", which hadn't been directly called as what we know as financial crisis. Financial capital emerged as the basis of monopoly capitalism, Lenin pointed out that "The financial capital is the bank capital in the largest bank and is a bit monopolistic. It integrates with the industrial monopoly capital"<sup>2</sup>. This shows that financial capital does not mean simple monetary capital. The latter is a capital existing in the form of monetary, such as in the banks, the stock exchange, monetary capital in financial area, not including the industrial capital in production field and the commercial capital within commercial areas. And financial capital is the integration of the bank capital with the industrial capital, commercial capital, including capital in the area of services. Today's financial crisis is not singly occurring in circulation of currency and monetary capital, but is the economic crisis combined with the industrial and commercial crisis, appearing in the financial and credit aspects. The fracture of lending relationship in the financial and monetary field is just in the pattern of the crisis in production field, appearing in the field of currency circulation.

2. The problems in the financial and monetary field are superficial, and the ones in social reproduction are essential. The credit imbalances arise from contemporary management of the financial sector. We should not just notice the currency and monetary

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1 KARL MARX : Capital Volume I, this edition first published in Pelican Books 1976 ,reprint in Penguin Classics 1990, P,236 ,see(50).

2 Lenin: "Imperialism is the Highest Stage of Capitalism", "Selected Works of Lenin," Volume 2, People's Publishing House, 1995, pp.

flow, but must pay full attention to the internal relations between production and circulation. In other words, we must focus on the production process of capital flows, once the currency circulation cannot work.

It requires the use of money back-flow law which is revealed by Marx to guide macro-control. This law means that, in social reproduction and circulation of the total capital, the production sectors are mutually conditions and premises for each other, and can realize the compensation of both the value and in-kind through mutual exchange of commodities((replacement both in value and in material)). If this exchange is normal, the currency pre-paid by producers to the flow as the exchange of commodity will flow back to their own hands with the input. <sup>1</sup>This law shows that, if the commodities' circulation in the whole society carries out normally, then, in the cycle of capital circulation, the currency the general business puts into circulation(capital value of the monetary form) will be able to return to the enterprise; if the enterprises' currency comes from bank loans, then monetary will be back to banks. In the modern system of bank credit, corporate investing in the currency is closely linked to the Central Bank; if macroeconomic operates normally, the monetary that the central bank puts can timely return. Therefore, the currency returning law in fact is the manifestation of social reproduction carried out smoothly. Whether the process of social reproduction is normal and the money can flow back or not is the relationship of nature and phenomenon, also causes and results. Therefore, the solution to the financial crisis must first lie in the problem of disruption circulation of commodities caused by the proportionate imbalance in the process of the society reproduction.

If we make the financial crisis as a "can be" special currency crisis, we will think that injecting funds into the currency and the field of circulation of monetary capital to "rescue the market" can prevent the financial crisis. Obviously, this is a method only at the surface of the economic phenomenon, which can't solve the real problem. Solving the financial credit imbalance should set from the imbalances of industrial structure in production field.

## **II. Combining the adjustment of the industrial structure with the basic socialist economic system**

1. Readjusting the industrial structure should be based on production relations. The industrial structure belongs to the scope of productivity which is always in a certain relation of production. Although the theoretical analysis of productivity can take no account of relations of production temporarily, yet we must connect the production relation with the solution of the actual production problems.

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<sup>1</sup> Law on currency flows back, "*Das Kapital*," the third volume 2 "V. The media role of monetary circulation in the exchange " has devoted, a number of other places mentioned, see "*Das Kapital*," paragraph 2 Volume, People's Publishing House, 1975 edition, p. 446, 459, 508, 512, 534.

Productivity level of the historical development decides production relations. However, relations of production aren't passive, which is linked to people's subjective initiative. Once setting up the production relation that is basically suited for the productivity, whose consolidation and improvement will promote faster development of productive forces; and if not, it will hinder its development. The destruction will appear as the imbalance of the industrial structure. The capitalist economic crisis is caused by the increase of the spontaneous market's department system by private ownership, leading to the imbalance of industrial structure. From the perspective of the production relationship reacting to the productivity, it depends on the demand structure of the purchasing power, while relying on the relationship and structure of the distribution. According to Marxism, the most fundamental means is adjusting well the relationship and structure of the ownership of means of production.

2. It is necessary to consolidate and perfect the basic socialist economic system in order to make the industrial structure combined with the demand of purchasing power. That is to say, we must form an industrial structure in favor of the broad masses of working people, to develop the national economy in the primary stage of socialism. If it deviates from the ownership relation and structure of the basic economic system of socialism, there will be imbalance in market demand and supply, thereby impeding the development of social productive forces. This exists in practice:

--Blindly driving the development of car industry in order to pull the national economy is an example. This is equivalent to that, a series of resources and labor costs by the industrial combined with it are serving for the class of buying cars. It is well known that most Chinese can not afford a car. It determines that the development of the little car once beyond the narrow limits have the purchasing power, it will make a large number of commodities circulation related to the manufacturing sector due to over-supply. This is bound to be reflected in the currency circulation and become financial problem. We just don't talk about the consequences led by too many cars in transportation, land occupation, and pollution.

--The real estate industry is another case. As developing too much the high-end commercial house deviates from the spending power of ordinary people, there is a problem of poor monetary circulation produced by the flow of poor housing; together with the bubble caused by speculation of the real estate, it turns into financial problem.

These two examples reflect that the industrial structure emerges factors going against the majority of human, it will lead to financial problems. Generally speaking, it is connection apparently between causing the irrational of the industrial structure and the spontaneity of market system of social division of labor, while the greater proportion of private ownership, the greater this spontaneous. Planning-oriented based on public ownership can promote the advantage of the development of productive forces by making good use of market division of labor in society, to reduce the spontaneous. However, if the

foundation of the public ownership is weakened, it will be difficult to achieve.

Therefore, it is scientific that adjusting the industrial structure must combine with improving the basic socialist economic system to carry out.

### **III. Achieving the expansion of consumer demand by maintaining the dominant position of public ownership**

1. The reasons of the capitalism crisis lie in private ownership, rather than inadequate consumption spending. Otherwise, the idea is superficial. Marx pointed out profoundly, "it is purely a tautology regarding the crisis as the result of consumption or consumer of lacking of payment ability."<sup>1</sup> This is because that, the consumption in a market economy can only be payment consumption. They are the same means that missing the consumers with the payment capability and the crisis caused by excess power of production, unsold out commodities. That is to say, it is equal to say noting that using inadequate consumption to explain the reasons of the crisis. The direct cause of the economic crisis is the income polarization between the working class and capitalist class, the fundamental reason is the contradictions between the capitalist private ownership and socialization of production.

2. The inadequate consumption current in China is due to weaken in the dominant position of public ownership. According to information, the consumption rate of Chinese drops from 59% in 1997 to 48.8 percent in 2007, the remuneration of workers in the proportion of GDP descends from 53.4% to 39.74%. During the same period, the proportion of capital income has been rising, the proportion of enterprise earnings accounting for GDP rises to 31.29 percent from 21.23 percent, the fiscal revenue of the Government budget in GDP ascends from 10.95 percent to 20.57 percent.<sup>2</sup> This situation is positively correlated with the decline of the dominant position of public ownership. Statistical experts have estimated that from 1995 to 2006, China's the proportion of the public and private ownership economy evolves respectively from 73% and 27% to 48% and 52%.<sup>3</sup> This verifies the principle that the ownership relationship determines the distribution relations. Therefore, we must revitalize the public economy in order to solve the problem of declining consumer demand. This is the fundamental solution to improve the livelihood of the people.

3. It is a dead road of privatization adding to the redistribution of public finances. In recent years, it was thought that privatization in China had been a foregone conclusion and

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1 "Das Kapital" Volume 2, People's Publishing House, 1975, p. 456.

2 "4 trillion of investment focus on the livelihood of the people making a big 'cake'," the Web site of Ministry of Finance of People's Republic of China : Home> Government Information> Financial Perspective> Chinese financial newspaper, 2009-03-23.

3 Chengrui Li: "Great changes the extremely complex analysis of the structure changes of Chinese current socio-economic" Prospects of China Press, 2007, p. 1.

it is inadvisable to change, and proposing that we should solve the issue of widening income gap through the government's public finances. Such "private ownership adding to redistribution of public finance" is not an innovative approach, but some of the developed capitalist countries engage in the democratic socialism way. However, firms in those countries were over time, which is now not work. They have been able to implement it, because of them extract high monopoly profits and excess profits in the international economic and trade relations through "center - periphery" pattern of international economic relations as "central country" mastering advanced productivity. And part of them is diverged to their own people for engaging in public welfare, so that it eases the class contradictions. However, China has no such conditions.

Therefore, "private ownership adding to public financial redistribution" is basically dead in China. The relationship of the ownership of means of production determines the relationship of income distribution, only to maintain the dominant position of public ownership it can truly expand consumer demand.

#### **IV. Taking the revitalization of the new public economy as the key measures to expand employment**

1. The development of private ownership can not sustain economic growth by expanding employment. It is generally believed that economic growth could protect the employment only when it reaches a certain percentage. This contains some truth at first glance, but with the basic principles of Marxist economics to analyze it, it can be seen that this view is not scientific. As long as we introduce the factor of the nature of ownership into productions, we can see that if the additional financial investment is mainly used to foster the development of the private sector, then this would not be able to guarantee the steady growth of employment. Because it can not change the law of private capital accumulation which continues to reproduce the relative surplus population, and the private capital itself bases the existence and development on the premise of the existence of unemployment. Additional investment through financial means, if not focusing on the rationalization of industrial structure but on the temporary increase in aggregate demand, the unreasonable industrial structure or excess production capacity will be temporarily hidden; the increasing contradiction will break out sooner or later. If the financial investment by making ends meet or relying on deficit financing, there would be inflation and the situation will get worse.

2. Only through the dominant public ownership economy, can the economy growth be able to expand employment. To truly expand employment, we must adhere to the "development relies on the people". That is, through the program guide, subject to adjustment of the industrial structure and guiding the people to organize themselves, revitalize the new public-owned economy which is integrated with the market economy,

limiting the income gap within the scope of distribution according to work. And we will be able to consciously obey the state's macroeconomic regulation and control. While adjusting the structure, we can take advantage of the current operational difficulties of a large number of private enterprises to achieve a new private to public by the “conversion” to increase employment. And we can also promote new type of public-owned economy in practice and get the achievement that public-owned economy really accounts for the dominant position. So, because of the protection and improvement of the livelihood, even if the economy did not meet the annual growth rate of 8 percent, the society will be stable, and there is hope for the scientific development. In front of the public ownership we add a “new” word, this is because some people say that we have to go back to the old system. They think that the public ownership is the same thing as the old system. In fact, they put the public ownership and market economy in opposition. But we believe that the public ownership economy which is efficiently combined with the market economy should be revived. New type of public-owned economy has been reflected in a vibrant reform of state-owned economy and collective economy. But the problem is to further consolidate and expand their share in the national economy. Only in this way, can we expand employment fundamentally, and eradicate unemployment ultimately.

## **V. Adhere to the unity of national economy independence and the opening to the world**

1. Adhere to making use of national strength to realize powerful macro-control. If we want to realize powerful macro-control in the primary stage of socialism economy, we must proceed from the overall national strength. Discussing about the macro-control from the perspective of foreign economic relations, first of all we should distinguish between national and external strengths. As China's national strength, the national capital includes public capital and private capital of the legitimate operation, and doesn't include foreign capital. Originally, the reasonable utilization of foreign capital is for us to learn the advanced science and technology and management experience from the developed capitalist countries, but many local cadres regard foreign capital as China's national strength, and there has been a tendency to blindly attract foreign investment. And they counterpose the reform and opening-up to the establishment of an independent national economic system and develop export-oriented economy sightlessly, which increases the dependence of the manufacturing in developed countries and the current account surplus of RMB. And thus increases over a reasonable account of foreign exchange reserves. Therefore it increases the constraining from international capitalist economic system on China's economy. The greater such constraints are, the greater the negative influence of the international financial crisis and the capitalist economic crisis on china is.

2. Maintaining the independence of national economy can not allow free access and output of international capital into or out of China. The difference between capital flows and the currency circulation is objective. In international economic relations, we must distinguish the international monetary flows from international capital flows. The former, linked to the current account convertibility of foreign exchange, is always involved in country currency exchange caused by the circulation of the international commodities. Yet the latter is related to the foreign exchange capital account convertibility. It not only involves the convertibility of the form of country-specific currency, but also the relationship among countries' capitals. That is to say, it concerns about the main capital in different countries of mutual interest, which is the different relationship of the ownership of means of production which belongs to different countries. Therefore, the flow of international capital, especially the flow of international capital (happened in the international spatial movement), is closely related to the sovereignty of the country's economy. They have the essential difference with international monetary flow. This is also the difference between RMB current account convertibility and RMB capital account convertibility.

We need to know even if the IMF, based on Neo-liberalism as the guiding ideology, is clearly defined in the eighth free convertibility of FX current account; it also does not formulate the freedom of foreign exchange capital account convertibility. It should be said that this reflects that the world's countries all have maintained a cautious attitude toward their national interests and economic sovereignty. Therefore, it can be said that in the era of economic globalization the free convertibility of capital account is not a symbol of the determination that whether or not financial sector is opened to the outside world. Undoubtedly, China's financial industry should be opened to the outside, but this does not mean that we could not distinguish the boundaries of national economic interests among different countries. As long as it is detrimental to their national economic interests, they can not open the free convertibility of capital projects.

3. That the average level of labor productivity of our country which is equal to those of the developed capitalist countries is the basic conditions of the free convertibility of the RMB capital account. Theory of financial liberalization claims that developing countries open the foreign exchange capital account convertibility. An important argument is that the free flow of international capital can reduce the value of goods, which benefits the consumers. This is specious. In fact, market competition is not only the competition in the field of circulation of commodities; more importantly, it is the competition in the area of capital flows. The outcome of competition in the market not only affects the sellers and buyers in the field of circulation of commodities, but also the relationship of the capital owners and workers within the production of capital. Competition in the international market is based on international law of value. Under the circumstance of unequal levels of productivity among the countries, if the international capital accesses to the countries are with low productivity, to some extent, it's truly that this will expand the country's

employment at a certain stage. However, because of its high organic and high laborous productivity, the number of workers will be significantly less than the national enterprises of the low organic composition. The economic strength of the countries with low productivity has been seriously weakened by the crowding of the capital of the developed countries. Due to low wages , national enterprise go into bankruptcy and unemployment, even though the foreign companies are in lower product prices ,as consumers, the majority of workers continuing to work in the national enterprises, are lack of purchasing power, say nothing of benefit. Theory of financial liberalization only analyzes the competition in general circulation, not analyzing the competition in capital flows, which is obviously one-sided.

According to the rationale of competition in the international market revealed by Marx, based on international law of value, we could reach a conclusion. That is, under the circumstance of equal levels of productivity among the countries, we can really achieve equal international confederation of free competition. And only under this circumstance, can the free opening of foreign exchange capital account convertibility and the promotion of the free flow of international capital make the country's national economy in the international market obtain long-term benefits equal to the competitive countries.

### **Concluding Remarks**

According to the foregoing analysis, the fundamental method to resolve China's domestic macroeconomic issues is as follows: adhere to the dominant position of public ownership and firm revitalization of new public economies. At the same time, readjust the industrial structure for the benefits of people, and build an open and independent system of a modern national economy. Of course, though eager to solve financial problems, we could not ignore symptoms policy. That is, we should use fiscal means to add short-term investment in economic structure and to resolve bank bad debts, meanwhile, use political means to stop financial speculation, corruption and so on.

China's current economic problem is the impact of international financial crisis, but the main reason lies in the internal one. Because China's free convertibility of RMB hasn't been opened yet, attributing China's financial problems to external causes is unreasonable. However, there is no need to worry that China will continue to suffer if the international financial crisis continues. We firmly believe that as long as China insists on consolidating and improving the basic economic system and adhering to the guidance of Marxism, the national economy is also able to work stably, even if the international financial crisis gets worse.