

Selected Papers of Beijing Forum 2009

Foundation for China's Economic Growth

Zhou Qiren

Professor, Peking University

© 2013 The Authors. Published by Elsevier Ltd. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).
Selection and/or peer-review under responsibility of Beijing Forum

China's economic growth has brought about changes to Chinese people's life as well as the global economy. No doubt it is regarded as a miracle. This paper analyzes China's economic growth from the point of institutional reform. The main argument is that through the redefinition of property rights, the operational costs of China's planned economy under public ownership was greatly reduced, and the productive and innovative forces of the huge human capital were emancipated. China thus gained competitive advantages in the global market.

1. The Starting Point of the Reform

Theory of the firm is one of the ideological bases for the planned economy system. It is observed that while the large firm growing up in the market has an internal plan, the economy as a whole does not. According to Marx, as production becomes more and more socialized, the structure of the firm becomes larger and larger, until it covers the entire national economy converting the internal plan of the large firm into that of the whole society.ⁱ Lenin puts his envision even more straightforward: the socialism, under the leadership of Bolshevik, means conversion of all citizens into employees of a state-firm, making the entire Soviet economy operate like a super state-firm.ⁱⁱ

Reviewing his theory of the firm, Coase (1988) stated clearly that he was influenced by the view that a nation is regarded as a huge firm.ⁱⁱⁱ Coase's contribution is to analyze the nature of the firm from the perspective of economics. To begin with, he raised a question, "if the allocation of resources can be achieved through pricing, why there exist firms that are not subject to the intervention of the price mechanism?" Coase's answer is that there are costs with the price mechanism. The "cost", different from the one people used to be familiar with, occurs outside of the direct production, and is associated with the transaction. As the market expands, the transaction itself consumes more and more resources. In certain cases, transaction costs can be reduced by substituting "entrepreneur coordination" under the order of managers inside the firm for "market coordination" under the price mechanism. According to Coase's theory, the firm is no more than an organization aiming at reducing transaction costs of the market.^{iv}

Nevertheless, Coase didn't go as far as the "super state-firm", because his analysis takes into account another kind of costs, the "organization costs". If the firm internalizes activities that used to take place in

the market, its organization costs (including cost of decision-making, supervision and management) will be inevitably on the rise.

Therefore, Coase's theory on the firm considers two types of costs at the same time. On the one hand, the firm is able to reduce the expenses of transactions in the market; on the other, it has to pay for the organization of these activities. His inference is clear. If the limits of reduced transaction costs equal those of the added organization costs, the boundary between the firm and the market is drawn. Coase cited a metaphor once used by his teacher that the real market economy is a sea, the islands in which are the firms. In Coase's view, in a world where transaction costs and organization costs co-exist, the "sea" cannot cover everything and "islands" cannot be substituted for the sea as a whole.^v

The starting point of China's institutional reform is a planned economy, i.e., a "super state-firm". The characteristic of the institution is that the state, in control of all resources, organizes the national economy by means of political authority, administrative system, compelling force, and order of an overall plan.^{vi} However, as the highly centralized economy of Soviet seems to be too rigid, the Chinese leadership made several attempts to assign the central authority to local governments. Looking back now, the separation of powers between the central and local government is to set up many local-government firms under the super state-firm. It did not and could not change the fundamental principles of organizing all resources under the system of public ownership. Therefore, the micro-foundation of a market economy is far away. On the whole, the separation of administrative power implemented prior to the reform in China, like that of the Soviet, by no means recognized the legitimacy of private ownership, or gave any possibility for individuals to sign a market contract.

To sum up, the start of China's reform is not owing to the need for expanding firms to cut the expensive transaction costs. The problem, disturbing the socialist economic construction for years, is the low efficiency in the resource allocation under the planned system. Fundamentally, the organization costs of the super state-firm run too high.^{vii} How to reduce the operation costs of the super state-firm is the realistic starting point of China's reform.

2. China's Path of Redefinition of Rights

No solution is provided to this problem. Coase's analysis only provides us with an enlightenment that the basic clue to the comprehension of system and organization evolution is to reduce the relevant costs. Since the major obstacle of the traditional socialist system is the large size and expensive organization costs of the super state-firm, the only way to enhance the economic competitiveness is to reduce these costs. As this is the case, the direction of the reform becomes clear, that is, leading the super state-firm which covers the entire national economy towards the "sea of the market." This is the source of the so-called "market reform" strategy. For this end, the boundary of people's behaviors in economic activities must be redefined, in other words, property rights must be redefined.^{viii} The problem is how to carry out the redefinition under a system where everything is owned by the state.

China's reform, in practice, is to redefine the property rights by means of assigning the power of the super state-firm.^{ix} It is found that a planned economy under the public ownership actually already had a system of defining rights, consisting of a series of systems and regulations about which behaviors were allowed and which were not. Under the urge of the demand for reform, the system of rights was redefined. As the isolated rights, private property rights, in particular, were recognized by both the society and the nation, market economy emerged on a large scale in China.

It is observed by the author that the redefinition of property rights is carried out on multiple levels. Firstly, place the state-owned economy and collectively-owned economy in an open and competitive market; under the stress of the competitive market, contracting out the state- or collectively-owned resources to qualified individuals for use and operation. Then adjust distribution of income by regulating the contract agreement. Therefore, individual's rights are restored through contracts which provide stimulus as well as restrains under the system of public ownership. A large amount of agricultural

Download English Version:

<https://daneshyari.com/en/article/1119232>

Download Persian Version:

<https://daneshyari.com/article/1119232>

[Daneshyari.com](https://daneshyari.com)