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**The roles of Chinese economists in
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The roles of Chinese economists in economic reform

The first section of this paper discusses the change of roles and professional capacity building of the Chinese economists in response to the challenges of economic reform. The section describes how economists have influenced the decision-making process of reform. Comments are also made on their actual roles. The third looks at Chinese economists' special roles in promoting pro-reform social consciousness. The last section provides an analytical review of institutional constraints and historical circumstances limiting the roles that Chinese economists have played in economic reform from an international perspective.

The historical evolution of the roles of economists in China

Before the economic reform, economists rarely played any important roles in the decision-making process of China's economy. For example, both China and the former Soviet Union adopted the heavy-industry-oriented development strategy at the start of forming the traditional socialist system (Lin et al. 1994). Nevertheless in the former Soviet Union, a heated debate occurred among the economists over the choice of the development model. Relying on contrasting in the theories and giving policy-advice, the divergent viewpoints were considered rigorous in both theory and practice, and gained the economists involved classical positions in history of the socialist economic theories (Jones 1976; Domar 1957). Whereas in 1950s China, the heavy-industry-oriented development strategy was initiated and adopted by the Chinese politicians alone, as was the corresponding economic system. No dissenting opinion was heard from the Chinese economists and none raised any economic disproof from the perspective of policy cost. Similarly, every severe erroneous decision affecting China's economic development, such as 'the Great Leap Forwards' in 1958 and 'Stop the production for the sake of revolution' during the Cultural Revolution in 1966 was implemented in the form of political campaigns with no intervention from the economists. When the consequences occurred in the form of economic crisis, the politicians took it upon themselves to correct their own mistakes.

During the whole period between the Chinese planned economy taking its form and the beginning of economic reform, the economists inside and outside of the government organisations mainly fulfilled two types of responsibilities. The main responsibility of the economists in the government was to distribute resources according to the plan. Because the prices of products and production factors were kept artificially low, products and resources were in short supply. The resources and the intermediate products demanded by the enterprises had to be allocated by the planning departments. Consequently, the economists in the government comprehensive departments (such as State Planning Commission, State Bank, the Ministry of Finance) had to decide how to allocate the limited resources to each industrial sector by processing and analysing the information collected from all the sectors in the context of their positions in the overall plan. The line ministries over the industrial sectors (such as the Ministry of Agriculture, the Ministry of Light

Industry and so on) and local governments wanted to obtain as much the scarce resources as possible. The economists employed by these ministries mainly shouldered the responsibility of making the most beneficial argument for their own sectors and local areas based on the special data they obtained on their sectors and their regions so as to support their leaders in bargaining for resource allocation from the central government.

The economists outside the government were mainly engaged in defending China's socialist economic system. Based on the basic conclusions of Marxist economics, they covered a series of theoretical issues, quoting the authoritative works. In this period, a small number of economists criticised the traditional economic system and made proposals for reform (Sun 1979; Zhuo 1981). The most outstanding figure here was Sun Yefang. He called for putting the plan and the statistics in the context of the law of value based on his understanding of Marxist economics and with reference to the contradictions of the economic system. Some of his specific critiques did influence the decision-making occasionally. But he was severely criticised for his theoretical argument and advocacy of the law of value, raising profit indicators in economic management and more autonomy of the enterprises. It was believed that these ideas ran counter to socialist theory and would cause damage to the internal integrity¹ of the traditional economic system.

Since the beginning of economic reform in the late 1970s, great changes have taken place concerning the roles of economists. First, communications between economists and policymakers was opened up. Economic reform, aiming at introducing the market mechanism to the planned economy was unprecedented in the history of post-revolutionary China. Therefore, the decision-makers were badly in need of the economists' advice in process of the reform. Accordingly, the central government has established and strengthened economic advisory institutions in the government and staffed them with a group of young and talented economists. In addition, in order to deepen the economic research, the government encouraged non-government economic research institutes to develop in the direction of specialty and multiplicity. A group of economic research institutes outside the government was also established under the central finance ministry.

Second, the research orientation of the economists since the beginning of reform has tended to be more applied and diversified. After reform began, economists ruthlessly criticised the traditional economic system, expounding the necessity of reform. Then encouraged by the effects of the reforms, they began to introduce alternative systems, helping design and formulate the reform program. Further, they helped expand and extend the reform process by drawing on the experience and lessons of reform. They also expressed wishes on behalf of newborn interest groups. During the whole process, the theoretical research continued to deepen and the effects of the reform promoted people's acknowledgement of it. Ideological barriers to further marketisation were gradually dismantled.

Third, the economists' analytical methodologies and techniques have largely improved since reform. The Chinese economic heritage mainly comprised the analysis of the capitalist economy by the Marxist classical writers and Soviet theory of socialist economy. Since the economic reform, the Chinese economists have concentrated on empirical research on the defects of the traditional economic system and the problems arising from ongoing reform. Based on such efforts, they put forward their comments and advice on the reform through bodies such as the Development Institute (1988). Meanwhile, a

number of economists began to systematically introduce to China the relevant theories and experiences of the other countries. They started by introducing theories on the socialist economic system focused on Eastern European countries and their practice of partial reform of the old system. Later, institutional and policy models from the industrial market economies as well as western economic theories found their path to China. In this 'take-over' period, more and more economists began to understand how the market worked in the industrial economies, and this understanding of western economics deepened over the time. Scholars gradually began to take a comparative approach to the study of different types market economies (such as in the United States, Japan and Germany), comparing and select among the different keynesianism, neo-classicism and institutional economics, etc. (see Liu 1988; Li 1987; Wu et al. 1993). The purpose of the Chinese economists was to build up their own model of China's economic system and to identify concrete measures to deal with the problems surfacing from the reform.

Economists provided decision-makers with a series of competitive policy options in order to point out economic consequences and avoid potential mistakes (Lee 1992). The opening of Chinese economics to the outside world has, no doubt introduced a broad information base for decision-making with respect of economic reform. In this process some economists began to apply to the standard analytical approaches of western economics to study the issues of China's economic reform. Taking the studies on the transition of China's economic system for example, the economists began to provide both decision-makers and the society at-large with information on the costs and benefits of the reform (Sheng 1994).

Finally, the economists increasingly deepened their research and understanding of the reform process. The low efficiency of micro management mechanisms and the inadequate incentives caused by it were the immediate inducements of China's economic reform in the late 1970s, plus the success story of the Household Responsibility System in the rural areas and the 'transferring power and profits to the enterprises' policy. As a result, the economists had put their research priority on the reform at this micro level, and a series of reform proposals were submitted (Li 1987). Because of the integrity of the economic system and the logic reform, reform at the micro level gradually led to reforms of the traditional resource allocation system and the price system. The economists then saw the need of the development strategy reform. They realised that the economics management system was subordinate to the development strategy and that the two were mutually conditional and interactive with each other. This produced the understanding of China's economic reform as the transition of two models (the development model and the system model) and raised a series of deeper level strategic transition issues (Liu 1986, 1989; Wu 1987; Lin et al. 1994).

The decision-making process of economic reforms and the economists

China's traditional economic system had been formed to respond to heavy-industry-oriented development strategy. It was made up of three components

- the micro management mechanism with no autonomy
- the planned resources allocation system which rejected the market mechanism
- the macro policy environment which distorted the price of products and factors (Lin et al. 1994).

The reform of the late 1970s started with transferring power and profits to the micro management system. The resources created by improved productivity were to be re-invested in the market by its producers which therefore initiated marketisation of resource allocation and pricing. The macro policy environment which distorted prices is the basic institutional arrangement maintaining the heavy-industry-oriented development strategy. Its gradual slackening pushed change in the development strategy.

Looking at the history of reform in China, we may select the key reform incidents and divide them into three types,² and then observe economists' role in the decision-making process within each type. The first type was the bottom-up reform which was spontaneously initiated by the direct agents with the approval from decision-makers. The most typical example of this type was rural reform started with the Household Responsibility System and later joined by the development of township and village enterprises in the private economy. In the early years of the people's commune, the farmers took the initiative in creating the agricultural management system of contracting production to the household. But this innovation was repeatedly banned by the government because it was inconsistent with the traditional economic structure. It was not until the late 1970s when China put an end to the Cultural Revolution, that the government took a more realistic attitude towards this management form which, despite being contrary to the traditional ideology, had real effect in mobilising the enthusiasm of the labourers. Subsequently, the government gave policy encouragement and support to the farmers to innovate this system. By the end of 1984, 100 per cent of production teams and 97.9 per cent of households practiced the Household Responsibility System.

The Household Responsibility System, once established as the main agricultural management form, naturally led to profound changes in the rural economic system. The fundamental functions of the People's Communes and the production teams were to collectively organise agricultural production, to manage and coordinate agricultural production factors. When the production-related contract system eased the conflicts between implementing the state's program to procure grain and other agricultural products and was replaced by the freedom to allocate the factors of production and to arrange the production, the system of the People's Communes lost its value and they were dissolved and replaced by the township and the village community autonomous organisations. The Household Responsibility System allowed households the right to allocate production factors and profits. Collective assets would no longer be the only legal means of distributing rural property, thus the private economy was born in the mobility of the factors of the production and their reallocation. In order to sustain themselves, township/village autonomous organisations needed to rely on the community to develop

and augment collective assets, which provided the initial accumulation and the motivation for the development of the township and village enterprises. When the agricultural production process was determined by the farmers themselves, the increase of surplus products began to break down the monopolised distribution system of the agricultural products. This then promoted the formation and development of rural markets.

From the whole process of the rural reform, we perceive the spontaneous creation of direct agents—farmers and the rural community cadres. They propelled this creation forward locally into the chink government policy.

There is no sign that Chinese economists' were involved in this process at all. Rather, roles of the economists in this type of reform process were mainly to spread the information on the reform process, to help the decision-makers understand the effects of the reform and the society develop a common understanding.

The second type of reform is the contract agreement reform which was achieved through negotiation between the direct agents and the responsible governmental departments. The most typical example of this type was a series of reforms focused on transferring power and profits to the state enterprises. Although this type of reform could only be carried out at the government's policy initiation, the government has had to undertake specific consultation with the enterprises due to information asymmetry problems with its operation. The reform of the state enterprises also started in the late 1970s and the early 1980s. As this experiment was gradually extended, the system was being continuously improved and eventually, developed into the Contract Responsibility System. Having experimented with another series of reforms to perfect the enterprises; contract system, by 1987, 90 per cent of industrial enterprises in the budget had adopted Contract Responsibility System.

Once the state enterprises were allowed to sell products in excess of plan quotas at a market price and were granted autonomy to plan part of their production accordingly, they demanded a market supply of the products and the factors of production, which in turn promoted allocative system, leading to the formation of a dual-track system of resource allocation and pricing. This dual track system served as the transitional stage of the reform of the traditional macro policy environment. Meanwhile, several reforms of enterprises management other than the enterprise contract responsibility system were being tried, such as the joint stock system in the profitable enterprises and the lease system in small enterprises. Until 1997, the decision-makers have identified two target models for state enterprise: conducting the modern enterprise system with the public corporation and private corporation as the basic forms (Editorial Committee 1994:1–12).

Reviewing the process of state enterprise reform, we can see the roles of economists were being augmented step-by-step. In the initial reform of transferring power and profits to enterprises, the government gave up certain authorities to the enterprises in order to counteract low efficiency and lack of incentives. In practice this was implemented through one-to-one negotiation between the responsible government department and enterprises—a practice that has been a feature of the enterprise contract responsibility system. As a consequence, economists didn't play a significant role in the form, execution and decision-making of the contract system. But when problems and challenges that this system were identified, economists provided advice and some designed alternative programs (He 1987). Interestingly regardless of the appreciation of these designs by

decision-makers, the practice would soon return to its usual tack—compromise between the enterprises and the responsible departments reached through negotiations. Nevertheless, debate over the choice of forms and systems of enterprise management among economists was unprecedently lively. This was helpful and allowed the decision-makers to avoid taking one-sided views of the problems of the state-owned enterprises. The decision-makers' final selection of modern enterprise management systems as the goal of the reform had, no doubt, direct relation with this widespread and prolonged debate and discussion. In the later 1990s, economists are directly involved in designing the forms of the modern enterprise system. But in the implementation, conflicting interests among the different parties will unavoidably result in compromises which deform these programs from their original designs.

The third type was the top-down reform that was directly initiated and guided by the central government, and implemented by the local governments. The most typical example of this type was the special economic zone policy and the relevant development strategy of the coastal areas initiated by the central government. In 1979, at Deng Xiaoping's advice, special economic zones were set up to attract overseas Chinese investment, Hong Kong and Macao and foreign investment by preferential policies. Direct investment and joint-venture factories were encouraged. In 1980 the policies for the special economic zones was finalised by the Communist Party Central Committee. Thereafter, the areas of these special zones were expanded to 14 coastal cities. In early 1988, the then top level decision-making body in the Central Committee decided to adopt the economic development strategy in the coastal areas and enrich the special policies and extend them to more areas in China.

In the reform of the development strategy in the coastal areas, the economists also strengthened their roles step-by-step. At first, the international experience with free ports, free trade zones, and export processing zones introduced by the economists, no doubt, provided useful information for the central level decision-makers. When the special economics zones were first established, the government mainly focused its attention on their self-development and their replication or 'window' roles. The development strategy of the coastal areas formulated later took into account of government's overall economic development strategy such as the transfer of rural labour forces and the reform of the traditional industrial structure etc. Before and after this policy-making, the decision-makers paid special attention to the economists' input. To be more precise, conversations between economists and top-level decision-makers resulted in the formulation of the coastal areas development strategy. The establishment of the special economic zones and the coastal opening areas, provided economists with a good laboratory enabling some measures of the economic system reform to be tested so as to accumulate experiences for further replication throughout the country. Local governments in the special economic zones and other coastal opening areas in particular attached great importance to the economists. Both Shenzhen and Hainan special economic zones invited the economists from Beijing to conduct investigations, giving their advice on the local economic and social development strategy. In the dialogue between the local governments and the economists, the economists' notion of 'small government and large society' was directly applied in Hainan (Deng 1991). Shenzhen special zones, Shanghai and other coastal cities took the lead in setting up stock markets. Because of the coastal areas' economic reform the coastal and interior areas differed greatly in the systems and the development

patterns. Thus, some national macro adjustment and control measures imposed by the central government would conflict with the interests of the coastal areas. Economists would then appear as spokespersons for the interests of the coastal areas and use their influence to criticise the central policy. Thus economists were exercising some checks and balance as public opinion and offering alternative ways of thinking to decision-makers in the central government.

This brief description of the three types of economic reforms and a review of the economists' roles suggest two overall impressions. First, the roles of economists strengthened over time, and second the more reform was driven by top-down forces or by governments', the greater the economists' role.

Evolution of reform consciousness

China's gradual and incremental reform has been carried out under the leadership of the Communist Party of China. Thus, the progress and the success of reform will largely depend on the transition of the ideology from the planned economy to the common understanding and recognition of the market economy.

Even before economic reform began, referring to the disadvantages of the traditional planned economic system, the circle of economists had theoretically begun to argue that the plan and market were complementary to each other. However, they didn't believe the plan and the market were equivalent in their roles and positions, rather they maintain that central planning should be the main form of economy, supplemented by the market economy. They also believed that both economic systems were outcomes of socialism and capitalism respectively, and therefore there was no inherent integration. It was on the basis of this official ideology and mainstream economic views that the economic reform of the late 1970s started.³

As economic reform proceeded, the economists' continuous exploration of the relationship between the plan and the market finally began to receive attention from the leadership level (Wu 1992:136–7). This was reflected in The Chinese Communist Party Central Committee's Decision on the Reform of Economic System approved at The Third Plenary Session of the Twelfth Central Committee of the Communist Party of China held in 1984. This document marked a big step forward in the understanding of relations between the plan and the market, affirming that the socialist economy was the planned commodity economy for the first time in the history of the Communist Party of China. However the document emphasised that the planned economy was a predominant form and the market form should be confined to secondary economic sectors with subsidiary but indispensable roles.

With the reforms of the micro management mechanism in the early 1980s and its expansion to the reform of the allocative system and the macro policy environment, the professional economists were deepening their theoretical understanding of the relationship between the plan and the market. As the reform continued to influence the management behaviour of the state enterprises, and the price of products and production factors, people's understanding of the relationship between the plan and the market evolved from a notion of complementary, to that of organic combination. The economists did not believe the plan and the market would necessarily repel each other, rather they

could infiltrate each other. This theoretical development was reflected in a report adopted in the 13th National Congress of the Communist Party of China in October 1987, marking official recognition and acceptance of the theory. The document summarised the economic operation mechanism as ‘the state regulates the market and the market guides the enterprises’. This new recognition was a positive breakthrough from the old position of rejecting of limiting the market roles. But how to manage the national economy by both plan and market forces remained a dilemma at the operation level.

China’s economic reform entered a new era in the 1990s. The opening of coastal areas not only included thorough reform of traditional micro management and resource allocation systems but also rectified the distorted price system through reforming the macro policy environment. Thus the market mechanism played an ever important regulatory roles in distributing products and production factors. This deep-level reform was awarded by high economic growth, displaying the superiority of the market mechanism to allocate resources and regulate the economy. Paralleled to this process, theoretical China have gradually dispensed with the plan and market combination and promotes the market mechanism to a higher position.

It was through the efforts of economists⁴ after Deng Xiaoping’s inspection to the southern cities of China and a series of talks in the early 1992, that a reform target of socialist market economy in China was explicitly adopted at the 14th Session of the Communist Party of China National Congress held in August, 1992. This congress affirmed that this economic system would let the market play a basic role in allocating resources under the macro control of the socialist state—economic activities were to be regulated by supply and demand in the market and resources would be allocated according to efficacy through the price leverage and the competition mechanisms.

It needs to be pointed out that it was not merely through academic discussions that China’s economists played roles in the change of the ideology of reform. In the later 1970s, after the Cultural Revolution, the Communist Party of China and the government gradually shifted the priority to the construction of the economy and involved themselves in economic reform. The decision-makers not only needed to rely on economists to help design and implement the reform programs, but also needed them to help adjust the general direction of the reform so as to guide the society to achieve a common awareness. Therefore, since the 1980s, economists have participated in the formulation and drafting of all important documents, regulations and programs concerning the economic reform and the economic development issued by the Party and the government. It was through direct participation or through their dialogues with the decision-makers that economists made an important contribution to the evolution of the social consciousness of the reform.

Constraints on the economists’ role in the reform

The core of the economic reform in China is a transition from a centrally planned system to a market economic system. Three basic tasks must be fulfilled in order to realize this transition. The first is to abandon the ideology of traditional system of planned economy; the second is to identify the target model of market economy; the third is to realize the transition from the planned system to the market system. Therefore, the Chinese economists shoulder three missions or play their roles in these three aspects. Well before the economic reform, economists had begun to criticise the traditional system of planned

economy. And throughout the year of economic reform, reflections on and criticism of the traditional system deepened. Meanwhile, the economists persistently argued for the necessity and the inevitability of establishing a market economic system, helping the whole society, especially the political leaders to realize that the market, as an effective allocative mechanism, is not unique to capitalism or could only be enjoyed by capitalism.

However, we can also see that the roles China's economists played in the transition process were limited. The transformation of China's economic systems was made possible by the participants renovating the old systems. Reform was not conceptualised by the economists. Moreover it was often the case that the reform programs formulated by the economists were either regarded as sheer paperwork or distorted during its implementation. To better understand this phenomenon, we need to examine the specific characteristics of the transition of China's economic system. China's traditional system of planned economy has specific characteristics that are different from the planned economies of Eastern Europe and the former Soviet Union. Although, similar to the Soviet Union, China chose the heavy-industry-oriented development strategy in the 1950s and a traditional planned economic system (Lin et al. 1994), this system was subject to many adjustments making it more flexible as compared to the former Soviet Union and with less serious price distortion (Perkins 1992). The Chinese planned economy took into account of incentives of the state, the collective and the individual. Furthermore, the target model of China's reform was unique. Because China's economic reform is a non-radical reform under the leadership of the Communist Party of China, the ideology of socialism and China's traditional culture incur significant preconditions for the market economy. The Chinese market economy will not be a reprint of the Japanese or American models. So far, China's reform differs significantly from that of East European countries and Russia (Lin et al. 1994b), and this has created a special demand on economics.

That demand occurs in several areas. First, western decision-makers concerned with macroeconomic issues tend to raise a lot of questions with economists, expecting their input on a number of issues, such as appropriate monetary and financial measures and the correct approach to high employment and low inflation (Lee 1992). Facing such great demand, western economics has accumulated a large amount of knowledge on applied macroeconomic theory and policy. Similar or related macro economic challenges will appear in the transitions from the planned economy to the market economy, and existing knowledge, will help people to understand and solve these problems, no doubt. But the macroeconomics developed from the context of the mature market economy does not have the capacity to solve the macroeconomic problems in the transitional period.

At the same time, traditional socialist economic theory was mainly established to serve centrally planned economies. It is of little help in understanding and explaining the issues appearing during the economic transition of systems. Socialist economics either criticised the traditional socialist system or offered a theoretical framework for alternate socialist systems (for example, Kornai 1980). Most of these theories however were produced well in advance of real transition. Their assumptions with respect of the target model were too naïve in most cases to cope with the actual transition process and, therefore were unable to satisfy the need. It is worth mentioning that a school of traditional Marxist economic theory has undertaken to study the transitions of systems (Preobrazhensky 1926). But their orientation was exactly opposite to the transition that we are discussing today—they researched the problems on how to transfer from the market to the planned economy.

In order to rectify the neo-classical tradition in Western economics of seeing institutions as a fixed factor, the neo-institutional economics school studied the issues of institutional equilibrium, the innovation and change of the institution and other related theoretical issues. It regarded the institution as an endogenous element, explaining and reviewing a series of institutional arrangements and innovations in particular historical periods (for example, Davis and North 1979). Studying the transition from the planned system to the market system should fall within the preview of institutional economics (Sheng 1994:2), because the analytical standpoint and framework of the institutional economics provide quite useful tools to study economic transition. However, since the practice of transition from the planned economy to the market economy only begun a decade or so ago, the academic response is to date preliminary and inadequate.

Transition economics is still a very young discipline, unable to provide the economists with mature and ready-made analytical and methodological tools. Therefore, facing fast-changing institutional arrangements and systems in the reform process as well as such issues as inflation in the macro economy, Chinese economists are learning while doing, and their roles as advisers to decision-makers are limited.

Although the market-oriented reforms are being carried out in all the former planned economies, the unique features of the Chinese transitional process makes it impossible to have a blueprint or an implementation procedure designed in advance. China has adopted a gradualist approach to its reform, focusing its process on the specific environment and the special issues in a specific period. To counter these specific features, there are not commonly applicable reform programs. For example, when the micro management system was reformed in 1979, the environment in rural areas was quite different from that of urban areas. Although prevailing ideology did not support reform towards privatisation, the Household Responsibility System went quite far in transferring power and profit, and reforming property rights in the agricultural sector. Every step of the reforms has been the result of the negotiations among the peasants, the consumers and the government. The economists played the slim roles in decision-making in the early stages of reform, in line with the gradualist characteristics of Chinese reform.

With, however, the direction of reform becoming more and more unequivocal, and social consciousness in respect of reform has been more widely promoted, the economists' advisory roles have increased. Furthermore, as partial reform has gradually become governed by a unified market mechanism, the demand on economics to provide analysis and information has increased. In addition, expansion of democratisation in decision-making will widen the opportunities for economists to influence the decisions. Improvement in the economists' own human capital, will broaden the applied value of economics, and further increase the roles of Chinese economists in the reform.

Endnotes

1 In the circumstance of the commission management of the state-owned enterprises, the interests of the managers and its staff are naturally in conflict with the state interest. The state enterprises would try their best to decrease the profit turned over to the state by expanding costs and reporting less output to the state. Due to information asymmetry, the cost of monitoring the enterprises is very high for the state. When macro policy distorts prices and eliminates competition, the management of the enterprises is not reflected in the market. In order to prevent the enterprises from appropriating the state-owned assets and profits, the state must not give the enterprises managerial autonomy. Therefore, the state has to control the supply of means of production, buy their products

and distribute them according to the plan. The state also controls the finance and budget of the enterprises. Judging from this, the management system of the state-owned enterprises is endogenous, which shares the inherent institutional adaptability with the traditional economic development strategy and the environment of macro policy (Lin et al 1994).

2 But note that some reform (for example, the fiscal reform) can fit into different categories at the same time.

3 Although some influential economists have begun to criticise the 'plate theory' of the plan and the market, and put forth the 'infiltration theory' instead to suggest the plan and the market should be complementary (for example, Liu and Zhao 1979). But these arguments were not mainstream view and were frequently criticised (Hsu 1991:33–9).

4 The debate continues today. So far the economists have not been able to reach a consensus on the market (see the forward of Wu 1992).

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