Discussion of “The Economy of People’s Republic of China from 1953” by Cheremukhin, Golosov, Guriev, Tsyvinski

Yan Bai

University of Rochester and NBER

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Overview

• Comprehensive analysis over Chinese economy 1953-1978

• Combining modern macroeconomic analysis with detailed documentation of China’s policy
Overview

• Two-sector wedge analysis along Chari, Kehoe, and McGrattan (2007)

• Estimated wedges consistent with China’s policy cycles
  ▶ Left policy, for example Great Leap Forward, leads to lower TFP but lower labor distortion across sectors

• Direct evidence reinforces the wedge analysis
  ▶ Agriculture market price to listed price
  ▶ Implicit tax measured with state procurement of agriculture good

• How does each wedge matter for GDP and labor share in agriculture? — Computing elasticities over wedges
Model

Two-sector model: agriculture and manufacture, perfect foresight

- “Relative” labor wedge

\[
\frac{MRS_{M,A}}{MRT_{M,A}} = \frac{u_M}{u_A} \frac{F^A_N/F^M_N}{p_M/p_A} \frac{p_M F^M_N/w_M}{p_A F^A_N/w_A} = \frac{u_M}{u_A} \frac{p_M F^M_N/w_M}{p_A F^A_N/w_A} \frac{w_M}{w_A}
\]

- “Relative” capital wedge

\[
\frac{u_M}{u_A} \frac{F^A_K/F^M_K}{w_M/w_A}
\]

- Investment wedges

\[
\beta \frac{u_{M,t+1}}{u_{M,t}} [1 + F^M_{K,t+1} - \delta]
\]
Relative Labor Wedge

- Cutoff of left policy in GLF 1957 or 1958?
- How much is driven by GLF, not right and left policy?
Comment: total labor wedge

- The paper assumes inelastic labor supply

- Suppose elastic labor with Frisch elasticity $\nu$

\[ \tilde{u}(C_A, C_M, N) = u(C_A, C_M) - \frac{N^{1+\frac{1}{\nu}}}{1 + \frac{1}{\nu}} \]

- Labor wedge in each sector

  In manufacture

  \[ \frac{F^M_N}{\tilde{u}_N/u_M} \]

  In agriculture

  \[ \frac{F^A_N}{\tilde{u}_N/u_A} \]
Total Labor Wedge ($\nu = 1$)

- Overall declining labor wedge
- Important for GDP accounting
- Robust to $\nu = 0$
Comment: direct evidence

- Agriculture market price to listed state price reflects the distortion over agriculture consumption

\[
\frac{u_A}{p_a} = \frac{p_{fm}}{p_a}
\]
Market price to listed price

![Graph showing the percentage deviation from 1952 for different years: 1955, 1960, 1965, 1970, 1975. The graph plots the percentage deviation against year. The labels include \( p_{fm}/p_a \) and \( U_a/p_a \).]
Comment: direct evidence

Figure: Figure 4(1) in Paper

- Blue line: free market vs listed price

\[ \tau_{fm} = \tau_c \frac{p_{fm,1952}/p_{a,1952}}{p_{fm}^a/p_a} \]
Comment: direct evidence

- Wedge from market price to listed price

$$\tau_{fm} = \tau_c \frac{p_{fm,1952}}{p_{a,1952}} \frac{p_a}{p_{fm}}$$

- Clearly when $p_{fm}^a/p_a$ close to $p_{fm,1952}^a/p_{a,1952}$, the wedge from direct evidence is close to the data
Future work on post reform periods

- The paper provides useful tool
- It’s important to understand China’s growth post reform and the impact of government policy
Future work on post reform periods

- The paper provides useful tool
- It’s important to understand China’s growth post reform and the impact of government policy
- It is necessary to incorporate trade wedges
Trade wedge

• Large and persistent current account surplus together with appreciation of real exchange rate

• Alessandria, Choi and Lu (2016) and Reyes-Heroles (2016)
  ▶ Large distortion in trade but not domestic frictions

• Government policy tilts towards and changes comparative advantage (Itskhoki and Moll, 2015)

• It would be interesting to see interaction of domestic and trade frictions
Comment

• Light industry versus heavy industry. Light industry is being suppressed as the agriculture

• Investment wedge: alternatively constructing with agriculture

• Elasticity analysis is cool but seems not straightforward to understand

• Other variables in the counterfactual: consumption, labor?
Conclusion

- Very cool paper

- Comprehensively documented appendix, good for future research