

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

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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

$$\frac{MRS_{M,A}}{MRT_{M,A}} = \frac{u_M/u_A}{F_N^A/F_N^M} = \underbrace{\frac{u_M/p_M}{u_A/p_A}}_{\text{consumption}} \underbrace{\frac{p_M F_N^M/w_M}{p_A F_N^A/w_A}}_{\text{production}} \underbrace{\frac{w_M}{w_A}}_{\text{moving}}$$

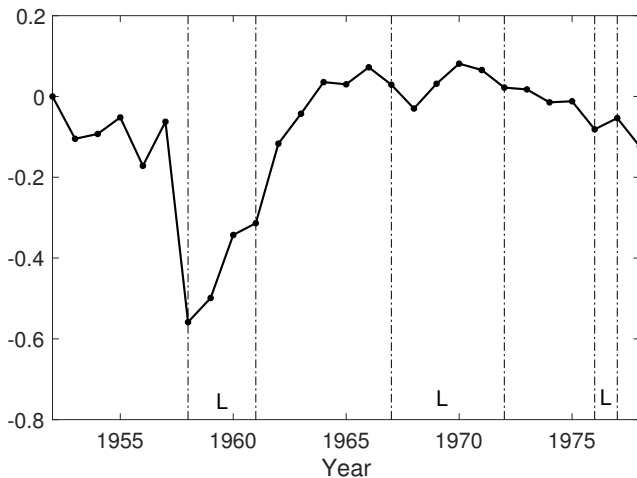
- “Relative” capital wedge

$$\frac{u_M/u_A}{F_K^A/F_K^M}$$

- Investment wedges

$$\beta \frac{u_{M,t+1}}{u_{M,t}} [1 + F_{K,t+1}^M - \delta]$$

Relative Labor Wedge



- Cutoff of 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 ν

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

- Labor wedge in each sector

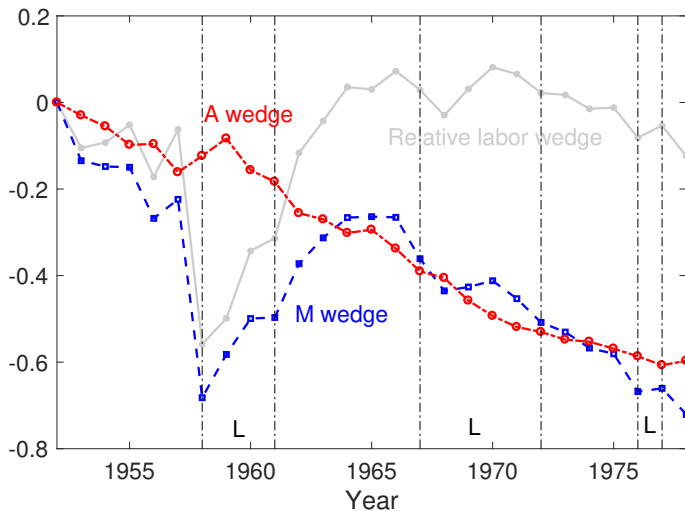
In manufacture

$$\frac{F_N^M}{\tilde{u}_N/u_M}$$

In agriculture

$$\frac{F_N^A}{\tilde{u}_N/u_A}$$

Total Labor Wedge ($\nu = 1$)



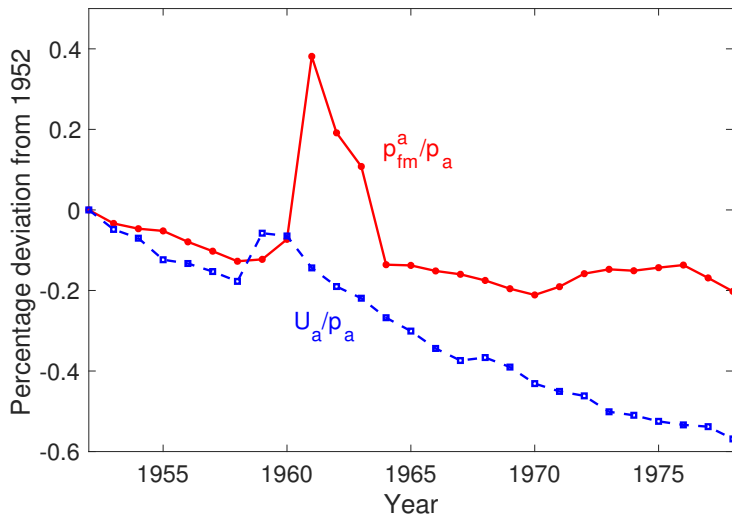
- Overall declining labor wedge
- Important for GDP accounting
- Robust to $\nu = 0$

Comment: direct evidence

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

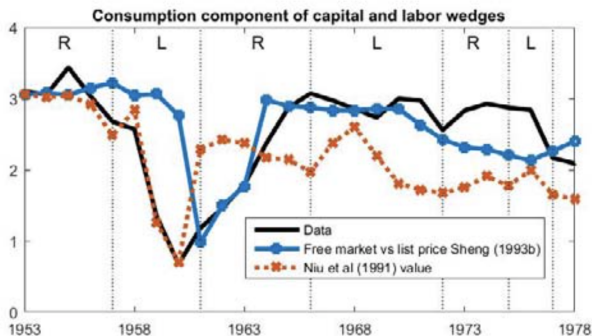
$$\frac{u_A}{p_a} = \frac{p_{fm}^a}{p_a}$$

Market price to listed price



Comment: direct evidence

Figure: Figure 4(1) in Paper



- Blue line: free market vs listed price

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

Comment: direct evidence

- Wedge from market price to listed price

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

- 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

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- 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