On the Legal Target of the Monetary Policy of PBC
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Abstract: The object of argument in this paper is the provision of the legal target of the monetary policy of the \textit{law of People’s Bank of China}. According to this provision, our country is blurred by a single target of the monetary policy or the dual target of monetary policy system. The academic members also have their own views and controversy on the issues of currency stability and economic growth. From the perspective of law, this paper, not only uses the value analysis method and comparative study method, also bases on the legal orientation that monetary policy is a part of macroeconomic regulation and control, think it is not fully comply with the goal of macroeconomic regulation of economic development. And with the setting of foreign legal target about the central bank’s monetary policy, we can put forward that the legal target of monetary policy should be to stabilize the currency in China. Then based on the conclusion of currency stabilization, China should determine the legal target of currency stabilization in the form of law and strengthen the independence of the People’s Bank of China.

An Overview of Monetary Policy of the Central Bank

Definition of Monetary Policy

If you want to understand the legal target of monetary policy of the People’s Bank of China, you should understand the more basic elements of the definition of monetary policy at first. The orientation of monetary policy directly determines its purpose would be. At present, the academic circle mainly discusses monetary policy from two aspects, including the monetary policy goals and monetary policy tools. From the microscopic point of view, it is proved that monetary policy has good inspiration for us to understand the monetary policy better. But we just discuss its statutory objectives in here. From the microscopic point of view, it is not directly. Therefore, we put aside the specific content of monetary policy and look at the monetary policy from an overall point of the view.

According to the general idea of economic and law circle, monetary policy and fiscal policy as the two basic means of China’s macroeconomic policy adjustment, which has mutual coordination and mutual effect to each other, make great contribution to China’s economic development by adjusting social demand and structure? Therefore, monetary policy becomes a part of China’s macroeconomic policy. Undoubtedly, the most important objective of macroeconomic policy in China is developed the economy. So the monetary policy as parts of macroeconomic policy, it is going on a further discussion in whether the objective and economic development must agree to the nature.

Legal goals of Monetary Policy

The legal goal of monetary policy is the ultimate goal of monetary policy, which is to determine the legal form. Although the national provisions vary, they generally choose the specific content to stabilize the currency, promote the economic growth, promote employment, keep balance of international payments and a few on the target of monetary policy. And thus it will form two different developments models of the formation of a single objective system, dual objectives system and multiple objectives system.
At present, the developed countries mostly choose the single objective system in the world. Take Germany as an example; it has identified the only goal of monetary policy is to stabilize the currency since 1957 in Germany. After the Second World War, Germany faced the historical background that economy extreme inflation, soaring prices, severe depreciation of the currency. Under the historical background of that time, the problem must be solved is to stabilize the currency. But Germany’s stable value did have a development without sacrificing economic growth, and its GDP has always maintained a high level, such as in 1950-1960 is 7.5%, 1960-1965 is 5%, 1965-1970 4.8% [1]. In addition, there is one of the most intuitive appearances that Germany which stabilizes the value of currency as the legal target of monetary policy, still remains one of the most powerful countries in Europe. From here we can see that the steady value of the currency does not necessarily hinder economic growth.

A typical multiple objectives system is the United States. There are four targets of U.S. monetary policy which will stabilize the currency, keep economic growth, and fully promote employment and balance of payments. However, the U.S. monetary policy goal is not immutable and frozen, and there are inherent contradictions between the four monetary policies. So through America’s financial history, it is not difficult to find that the focuses of monetary policy in the United States are changeable in different times. For example, in 1929 after the financial crisis, the United States would take focus on full employment as its monetary policy when the unemployment is extremely serious. In 1974, Ford government put economic growth as the main target of monetary policy when the unemployment is extremely serious. In 1974, Ford government put economic growth as the main target of monetary policy when the most serious recession was occurred in recent decades in the United States.

Therefore, we can draw the conclusion that the selection of monetary policy target is not groundless by observing the foreign experience, but selected through considering many specific problems in facing historical tradition and the reality of the economic situation. And the most important is not monetary policy of single or multiple, but for their own specific circumstances. Finally, the target of monetary policy will promote the financial stability and national economic development.

The Provisions of the People’s Bank of China Law on the Objectives of Monetary Policy

The third article of the law of People’s Bank of China clearly stipulates that the goal of monetary policy is to maintain the stability of currency value, and to promote economic growth. According to this provision, there is still an argument about which should be chose between single target system and dual target system in the academia in China. Some people think that our country should use the dual target system to maintain the currency stability and promote economic growth. While most scholars hold views that using the monetary policy are to stabilize the currency of the single target, a lot of scholars also admit that China is not a simple single target system. The more representative in the views is that China’s monetary policy is a “single target which has the primary and secondary levels”. The first level of monetary policy is the stable currency; the second level of monetary policy is to promote economic growth. The first and the direct objective of monetary policy in the People's Bank of China are to maintain the stability of the currency. However, it is not in order to stabilize the currency, but in order to promote economic growth [2]. Whether it is the single or double target theory, both of them are included the objective of a stable currency.

The Disadvantages of China’s Goal of Monetary Policy

The Influence of Fuzzy Target on the Main Part of Market

Whether single target or dual targets system for the target of China’s monetary policy, it is denying that the two targets, stable currency value and economic growth, are guiding the development of China’s monetary policy. Although the two targets can be taken into account, they are not completely unified. When there is a conflict between the stability of the currency and economic growth, specific measures will become unstable in the implementation of monetary policy. In this case the main market will be in a confused situation; the investment tendency has no guide and become wavering. So the circulation of capital has been seriously hindered.
In contrast, although the American monetary policy has provided four goals, but it has different focus in the different periods, and the United States has a developed information disclosure system. According to the focus and detailed rules for implementation of monetary policy, it can easily understand that multiple targets did not bring the confusion in the market guide. However in China, although it has provided the first target appearance of stable currency value, the actual operating standards are more inclined to economic growth. The investment of market part is no longer based on the oriented monetary policy prescribed by the law. It becomes the specific rules that try to figure out which the implementation of monetary policy is more inclined to. In addition, the information disclosure system has serious defects in China. The decision and implementation of specific measures of monetary policy is not timely, accurately and effectively to open for the market part, which resulted the main market lacks the correct guidance of correctness, leads to the wrong direction of capital circulation, and results the law efficiency of capital allocation and dislocation.

**The Location of Monetary Policy and Goals of Monetary Policy**

In the introduction of monetary policy, we have already mentioned that monetary policy is a part of the macroeconomic policies, and the ultimate goal of macroeconomic policies is to promoting economic growth in all countries [3]. Because economic growth as overall objectives of macro policy, so when the monetary policy as a part of the macroeconomic policy, it involves the relationship between monetary policy goal and economic growth as the whole and the part. According to the Marx philosophy theory, the whole is composed of various parts together. The function of between the whole and the part can be inconsistent. And in most cases, they are not consistent. So the economic growth does not necessarily become the target of monetary policy. And monetary policy as a part of its, cannot completely achieve the overall effect. Strong behavior is only care for this and loses that.

In addition, Wang Qiren thinks, currency stability and economic growth belong to different levels, and the two different levels of problems are not completely taken together [4]. I agree with Wang Qiren’s view that the two really should not be in a parallel relationship. But on the other hand, if the goal of monetary policy should be serviced to the overall goal of macro-control, you should not completely separate them. In fact, in 1974, Ford government also got good effect during the severe economic recession when they took economic growth as the goal of monetary policy. Therefore, the two are not in the parallel position, also not completely abandon, you can make economic growth in both positions. During the implementation of its currency stability, the monetary policy can taking into account the economic growth. But once between economic growth and stable currency are in conflict, you should be subject to stabilize the currency, and this is not to hinder the economic development, but to provide a more stable financial environment for economic growth. Only in this way, the goal of monetary policy can be consistent with its legal orientation.

**Social Reality and Goals of Monetary Policy**

A country’s monetary policy objectives should take fully consideration of the actual economic realities to choose. In 1995, when the law of People’s Bank of China was passed, the main problem faced by society was economic development at that time. Therefore, although the international common practice has the goal of stabilize the currency value, and along with the economic growth. In fact, whether from the perspective of legislators, or from the government’s point of view, the goals of monetary policy we formulate are more inclined to the problem of economic growth.so we see that in the subsequent twenty years, our country has been issued that way by printing money to stimulate economic growth. The rate of China’s economic growth is very fast. But when the speed of printing money is faster than the speed of economic growth, the inflation appears, the purchasing power of currency has also declined significantly, and the sequela caused by using the method of forced stimulation has gradually emerged.

After twenty years of development, Chinese economic development has reached a considerable level. Although there still exist some problems, it should be solved at first compared with the stable currency value. At present, the purchasing power of money has seriously declined relative to the
speed of economic growth in China. Compared with the speed of economic growth, the speed of losing the wealth in People’s hands are faster. It is a relatively risky behavior that always strongly stimulates economic growth. Once the economic growth is not up to the effect, the losing wealth in People’s hands is not added, it will immediately cause People’s poverty. Therefore, to stabilize the currency value and stabilize the purchasing power of the currency is a kind of wealth increase to contemporary China in some extent, and this increase is more urgent for the people.

**The Improvements and Suggestions of China’s goals of Monetary Policy**

**Stable the Currency Value as the Legal Target of Monetary Policy in Legal Form**

In recent years, more and more countries in the world are reaching a consensus that the central bank has the most important contribution to the development of our country economy, which aimed at implementing long-term stability of prices in monetary policy. [5] Taking stable currency value as the only legal target of monetary policy, it not only adapts the nature and function of the People’s Bank of China, but adapts to the status of the People’s Bank of China. The People’s Bank of China is just a financial management under the Chinese government; monetary policy also is a little part of the macroeconomic policy. The People’s Bank of China is unnecessary, nor the ability that putting all the goals of monetary policy on itself. Taking care of everything can only lose something as a result.

In addition, China has a flexible application of the rigid rules on the tradition. And has a disdained attitude to the rigid application rules. Not because of the using of flexible application, but the situation may be more beneficial to the society for financial development change rapidly. However, there are a fatal flaw in China that the flexible way without chapter to follow, no laws and no corresponding supervision measures. When the goal of monetary policy has two or more, it will left a huge developed space for the behavior to avoid the laws of implementation of monetary policy. It is very difficult for us to carry on the accountability after the monetary policy measures are down. Even if the measure is wrong, not to adapt to the economic development at that time, it may also be legitimate. As a result, no one is responsible for the consequences of the measures ultimately affect the stability of country’s financial. And this behavior will be greatly restricted when the determination of the stable currency as the legal goal of monetary policy. It is conducive to the implementation of the law.

It is conducive to maintaining the stability of the financial market through establishing stable currency value as the sole goal of monetary policy. For the main market, it is not necessary to worry too much about the problem of losing wealth in the hands. Because keeping the stability of the currency value has given us clear expectations. And from the practice of monetary policy in China’s history, when the goal of monetary policy once deviate in stabilizing currency value, the inflation and financial development would be serious and unstable. For example, from 1987 to 1993, the average growth rate of GDP was 8.94% in China. But due to ignoring the stability of the currency value of the monetary policy target, the average growth over the same period of M0, M1, M2 were 26.2%, 21.3% and 25%. It caused serious inflation and the development of the financial market became very unstable as a result. Therefore, to some extent, currency stability as the only goal of monetary policy would create a good financial environment to economic growth, so that the economy can grow steadily for a long time.

**Strengthening the Independence of PBC**

As the central bank of China, the independence of the People’s Bank of China directly affects the performance of its functions and the impact on the national economy. In the process of monetary policy implementation, we can see the legal goal of monetary policy is to stabilize the currency. But when monetary policy and economic growth are in conflicts, we have to choose the latter. The reason is largely due to the People’s Bank of Chinese are directly controlled by the government, has smaller independence. The second article of the law of People’s Bank of China stipulates “the People’s Bank of China formulates and implements monetary policy under the leadership of the
State Council”. The fifth article of the law of People’s Bank of China also stipulates “the People’s Bank of China can submit the decisions on the matters of annual money supplying, interest rate, exchange rate and other important provisions after the State Council has approved. Thus it can be seen that Chinese people lack the independence in the formulation and implementation of monetary policy, and the State Council evidently takes economic growth as the goal. In this case, it has become a behoove results to serve the government’s target of economic growth when the currency policy target of stable currency value for the People’s Bank of China and the economic growth are in conflict.

Therefore, in order to realize the monetary policy goal of stabilizing the currency value, it is necessary to exercise the right that formulated and implemented the monetary policy to the People’s Bank of China. But it do not represent the People’s Bank Chinese broke away from the leadership of the State Council. We can adopt other measures to redistrict the exercise of the People’s Bank China rights, such as State Council can raise the accountability of the People’s Bank of China. When the State Council held concerns on major measures implementation of the People’s Bank of China, it can call the governor of People’s Bank of China to there for a report. Our country’s practice has proved that limiting the right of the People’s Bank of China is much easier than limiting the rights of the central government. More important, taking the exercised rights of monetary policy formulation and implementation to the central bank will not only make an important step in our financial legislation, but also make our financial legislation into international trend. Keeping conservative ideas will make our country be abandoned by the international market.

Conclusion

The goals of China’s monetary policy are the dual target system, and the first goal is to promote economic growth, the second goal is to stabilize the currency. The nature of such regulation itself is not consistent with monetary policy. It not only goes against to the current situation and development of China’s financial market, but does not match with the international trend. So as a law, it should be abandoned.

In view of this, we should adopt the goal of stabilizing the currency value as the only monetary policy. It is not only a lesson from China’s historical practice, but also a stable demand of the financial market at this stage. In order to make statutory objective of stable value can be effectively carried out, China must maintain greater independence of the People’s Bank of China, and limit the effect of the objective of central government’s economic growth for the monetary policy goal at the same time. Otherwise the legal goals cannot be achieved; it even will cause more damage to the authority of legal system.

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