

Research on the Policies and Means Changes of Macro Regulation and Control of Chinese and Foreign Governments

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Abstract: In the process of economic development, government uses the "visible hand" to achieve macroeconomic regulation and control for "market failure", which has been common knowledge among people after World War II. Comparing policy and means adopted by Chinese and foreign governments in macro regulation and control, we can see that the choice is different in different historical periods and the change of emphasis in macro regulation and control policy and means has the convergence tendency. We can make the following conclusion from research of the change rules of macro regulation and control means in the market economic condition of Chinese and foreign governments: supply-side structural reform in China complies with the basic rules of development of market economy.

Keywords: Macroeconomic regulation and control; Policy means; Laws of economics

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Comparing the change rules of macro regulation and control's emphasis of Chinese and foreign governments in the condition of market economy is of great meaning for having a correct understanding of the nature of supply-side structural reform in China and deepening the reform.

1. Relative Theory and Practice of Western Countries' Macro Regulation and Control

1.1 Adam Smith and Say's Theories Emphasize Economic Freedom

At the end of the 18th century, inspired by Rousseau, Montesquieu, Voltaire and other bourgeoisie enlightenment thinkers, Adam Smith put forward the hypothesis of "economic man" on the basis of disclosing the human's self-interest nature in order to change the disadvantages of the natural economic system of self-sufficient in violating human nature and freedom and failing to arouse human's enthusiasm that are bad for the development of productivity. A market economy system of free competition that can fully arouse human's enthusiasm was also established based on the hypothesis. One of the core arguments in the *Wealth of Nations* by Adam Smith is: in this economic system, the market can allocate resources freely because

production and consumption on the free market are guided by an "invisible hand", which is the price decided by supply-demand relationship. He thinks that the "market economy is effective". Although everyone seeks their own interest, the mutual interaction in the market will inevitably bring about social benefit.

In 1803, French economist Jean Batiste Say put forward the theory of supply creating its needs in his work *A Treatise on Political Economy*. This theory was called Say's Law, which is the main academic argument of the supply-side economics.

Adam Smith and Jean Batiste Say claim that economic development should take the policy of allowing unrestrained freedom and markets should deploy and produce various necessary resources, and define the government in the market economy system of free competition as the "night watchman", whose deputy is defined as maintaining the stability of political power, security of the nation, security of society and construction and maintenance of some public utilities.

After the market economy of free competition has effectively pushed the prosperous development of economy for a century, the "invisible hand" fails, and the Say's Law no longer exists. The serious supply over demand eventu-

ally induced the 1929-1933 economic crisis that spreads over the whole world.

1.2 Keynes's State Intervention Theory Claims to Correct Shortcomings of Free Competition from the Demand-Side

Keynesianism, blossomed in the 1930s, uses the theory of "three psychological rules leading to the insufficiency of effective needs" ^① to explain that the "invisible hand" leading to the market failure is the root of the failure of say's rules and the world economic crisis. Thus, Keynes proposed to take the government as the third subject (or department) in the national economic circulation in the market economy condition ^②, defining the government as the macro-regulator in the economic operation and development and the subject in the secondary income distribution, using the "visible hand" of government to intervene through financial policy and monetary policy, in order to solve the problem of insufficient need that the "visible hand" of market alone cannot handle.

After World War II, with the establishment of the system of the state intervening in the market economy, western countries stepped out of economic crisis and achieved economic prosperity for continuous 20 years. At the end of 1960s, economic conditions of several countries began to worsen, which eventually turn into the phenomena of "double-high stagflation" ^③ spreading over western countries in the whole 1970s. Keynesianism cannot explain the reason that causes the phenomena of "double-high stagflation", and cannot put forward the solution, thus losing its dominant position in the theoretical cycle of economics.

1.3 Supply-Side Economics Puts Emphasis on Pushing Forward Economic Development from Supply-Side

Supply-side economics is an economic school emerging in America in the middle of 1970s. This school is against Keynesianism's unbalanced stress on the needs management, advocating that the supply management that takes the tax reduction as the core should replace the needs management of Keynesianism. This school holds the opinion that: the growth of the economy depends on the supply and effective utilization of production factors, claiming to achieve economic growth through stimulating supply and production. Individuals and enterprises provide production factors and engage in operation activities in order for earning rewards. The stimulation of rewards can affect people's economic behaviors. Free markets can regulate the supply and utilization of production factors automatically. Factors hindering market regulation should be eliminated. Main representative of supply schools Arthur Laffer explains that supply-side economics provides

an analysis structure based on the stimulation of individual and enterprises. People will change behavior with the stimulation. He thinks that government's task in this structure is to change the stimulation and affect social behavior through the role of its deputy and function. In other words, supply school claims that government can regulate the disposition of supply-side factors through the comprehensive utilization of various macroeconomic policies, making the supply match the constantly changing needs perfectly.

In 1981, new president Regan put forward "Economic Recovery Plan" and claimed that his plan broke completely with policies of former American government and adopted the demand school as guiding idea, based on the supply school theory instead. The main contents of Regan's economics are to reduce the inflation rate through decreasing government expenditure and controlling growth of the monetary supply; provide a loose environment and policy space of free market competition for enterprise operators through reducing taxes, accelerating depreciation of enterprises, and reforming a series of regulations that hinder production, arousing the enthusiasm of enterprise operator and investors and all other parties, promoting stability and development of economy. In theory and practices Regan's economics is against intervention, while in reality it isn't. In order to get out of economic troubles, he applied the Keynesianism's policies of regulating total social demand through the change of government expenditure, supply-side economics' policies of stimulating the increase of supply through reducing taxes and relaxing intervention of economy, and monetary school's stable monetary policies of controlling the increase of monetary supply comprehensively into government's macro-regulations, which leads to the realization of economic target of getting rid of the phenomena of "double-high stagflation" in some degree. Regan's economics enabled the full play of government's role of macro regulator in the supply-side regulation.

2. The Practice of Chinese Government's Macro Regulation and Control and the Exploration of Supply-Side Reform

2.1 Macro Regulation in the First 30 Years of the Reform and Opening-Up Policy

Under the planned economic system, China had confused macro with micro economy in theory and practice. The whole nation was a big factory. The government directly arranged the human, money, material and production, supply and sale in the factory. In 1984, we had figured out the difference between the concepts in theory, but the gov-

ernment didn't practice the macro regulation as a macro regulator.

In 1997, a financial crisis broke out in Southeast Asia. In order to maintain the growth rate of 8%, Rongji Zhu government begun to use the financial policies and monetary policies to regulate the operation of macro-economy, leading China to the road of Keynesianism's state intervention, stimulating and promoting economic growth through "three carriages".

In 2008, American financial crisis broke out. In order to cope with crisis, Jiabao Wen government implemented the recovery plan valued RMB 4,000 billion, with the loan of RMB 9,700 billion distributed to bank. Huge amount of funds was concentrated in the construction of "railway, highway and airport", providing guarantee to prevent China's economy from falling into the abyss of the crisis. This is classical Keynesianism, which uses pump-priming policy to make demand management. 4,000 billion plan relieves the pressure of Chinese economic growth, but at the same time it causes problems of high leverage ratio, excess production capacity and serious pollution.

2.2 Chinese Scholars' Exploration of Supply-Side Reform

After this financial crisis, reflection of practical experience of macro regulation centering on "demand management" inducing many Chinese scholars' innovation of theory of "new supply economics" and unprecedented attention on "supply management".

On November 2012, president of Westbro Institute for Economic Research, Tai Teng published Declaration of New Supplierism, putting forward macro policy of "downplaying total demands management, promoting reform from supply-side" in China for the first time. Meanwhile, "new supply-side economics research group" consisting of 7 people and led by Kang Jia, president of the Institute of Research of Fiscal Science of financial department published New Supply-side Economics of Chinese Style, putting forward the policy claim with the core of eight pairs^④. On March 2, 2013, "new supply-side economics research group" held the second meeting, specially inviting Tai Teng and other people to attend the meeting, where they proposed to set up Huaxia New Supply Research Institute, with this, two supply schools with similar value beginning to merge. On September 22, 2013, Huaxia New Supply Economics Research Institute, a civil think-tank organization approved by Beijing Municipal Bureau of Civil Affairs, led by Kang Jia, initiated and set up by Kang Jia, Chong'en Bai and 12 other scholars, was

established formally. This institute is aimed to research the new supply economics with the core of reform from supply-side.

2.3 Proposition and Practice of Reform from Supply-Side

On November 10, 2015, on the 11th meeting of the Central Leading Group on Financial and Economic, the idea of "reform from supply-side" was put forward by Jinping Xi for the first time, which is to push forward structure adjustment with reform, to correct twisted factors allocation, to increase effective supply, supply structure's adaptability and flexibility towards demand change, improve production rate of all factors, to better satisfy needs of broad masses of the people, to accelerate sustainable and healthy development of economic society on the basis of improving the quality of supply.

The China's Central Economic Working Conference held at the end of 2015 put forward that the emphasis of development of economic society in 2016 is to make great efforts to realize five reforms of supply-side, which are cutting overcapacity, destocking, deleverage, lowering the cost, and improving weaknesses. With the organization and strong support from central government, structural reform of supply-side in China in 2016 was conducted in full swing from entry point of arithmetic operation^⑤. On January 22, 2017, the Political Bureau of the Central Committee centered on the 38th collective learning about deepening structural reform of supply-side and put forward that we must handle properly four important relations^⑥. Premier Keqiang Li declared in Government Work Report the specific arrangement of deepening the five underlying points in the structural reform of supply-side^⑦. A year and half practice of structural reform of supply-side in China has showed that the emphasis shift of macro regulation means of government has achieved the expected effects.

3. Conclusion

Western country's government has changed from an outsider in economic development to the foreground, turning from demand management to supply management, eventually to the current state of co-functioning of demand and supply management; Chinese government gradually faded from the sole subject of economic development, returning the control of resources allocation to market, turning from single demand management to the dual emphasis of demand and supply management. We can see that the spontaneously similar choices of Chinese and foreign gov-

ernments on macro regulation policy and means comply with the basic economic rules of development of market economy. Chinese government has exhibited good performance in the regulation of the macro-economy.

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Commentaries

- ① Theory of insufficient effective demand of Keynes means that three psychological rules of human lead to the insufficiency of effective demand: law of diminishing marginal propensity to consume leads to the insufficiency of consuming demand, while law of declining marginal efficiency of capital leading to the insufficiency of investing demand, trap of flexible preference leading to insufficiency of both consuming and investing demand.
- ② In the competitive market economy, circulation of national economy happens between two subjects (or parts) of enterprise and family and be realized through factors, products and financial markets. In the market economy of state intervention, national economy circulation changes from the circulation of two subjects (or parts) and three markets into four subjects (or parts) (enterprise, family, government and foreign country) and three markets.
- ③ Phenomena of "double-high stagflation" refer to the economic situation of co-existence of high unemployment and prices.
- ④ Specific contents of Eight Doubles: No.1 Double Innovations, to be innovative country and encourage starting business; No.2 Double Promotions, to promote new urbanization and industrial optimization; No.3 Double Recuctions, to accelerate the implementation of reduction of tax taking structural tax reduction as the major task and reduction of

administrative approvals; No.4 Double Expansions, to expand the fusion of Asia, Africa, Latin America and China, and expand investment scale based on quality and structure in terms of growth; No.5 Double Transformations, to implement transformation from "one-child" policy within the urban system to appropriately encourage fertility regarding national population policy, and implement transformation from the state-owned assets and stock returns to the social security and public services; No.6 Double Improvements, to realize harmonious and simultaneous improvements of both state-owned economy and non-state-owned economy by taking their own advantages; No.7 Double Implementations, to implement the effects of both government and market, realize positive interations, complementation and cooperation between them; No.8 Double Matchings, to implement a new round of matching reform of "price, tax and finance", and proactively and substantially carry out the financial matching reform.

- ⑤ Addition puts emphasis on improving weaknesses and benefiting people's life, increasing effective supply at the same time, developing strategic newly-emerging industries, increasing new motivation and energy in the economic development; subtraction means that the government streamlines administration and delegates power to the lower levels, enterprises remove overcapacity the society lowers cost for enterprises, reduces bond and load on the enterprises, activating energy of micro economy; multiplication means that explore new motivation for economic development with innovative development idea, expand new space, raise "multiplication factors" of economic development, pushing forward economic development with geometric growth in emerging industries; division means that clear the obstacles on the path of economic development, removing difficulties to enable the smooth marching of chariot of the Chinese economy.
- ⑥ We should handle properly the relationship between government and market, short-term and long-term, subtraction and addition, supply and demand.
- ⑦ The first is to put efforts on innovating system supply, optimizing resources allocation; the second are to put efforts on innovation-driven, revitalizing the real economy; the third is to put efforts on increasing effective demand, stabilizing macro environment; the fourth is to put efforts on preventing potential risks, insisting on the bottom line; the fifth is to put efforts on improving people's life, increasing peoples' sense of gain.