

## **A Socialist Market Economy That Combines Responsive Government and Efficient Markets**

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### **Abstract**

In 1992, the 14th National Congress of the Communist Party of China established the socialist market economy system, which has been in practice for thirty years. The issue of the relationship between the government and the market has always been a major theoretical and practical issue in the history of socialist economy, and the core issue of establishing a modern economic system is to deal with the relationship between the government and the market. Since the establishment of New China, the roles of the government and the market in resource allocation have undergone multiple transformations, and since the establishment of the socialist market economy system, the relationship between the government and the market has been in continuous improvement, and on the basis of the government's efficient and stable provision of public goods. On the basis of the efficient and stable provision of public goods by the government, the market effectively plays a decisive role in the allocation of resources. A socialist market economy system that combines a competent government with an effective market is of great significance in promoting the growth of China's economy. History and practice have proven that the relationship between the government and the market is not static, but is constantly adjusted to fit the economy and society according to different development goals and stages.

### **Keywords**

Responsive government; Efficient markets; Socialism; Market economy.

## **1. Historical Evolution of the Relationship Between Government and Market under the Chinese Socialist System**

### **1.1. The Relationship Between the Government and the Market Before the Reform and Opening up**

After the founding of New China, our country went through a period of transition before arriving at a socialist society. In the founding programme of the Second Plenary Session of the Seventh Central Committee, it was proposed that in the economic sphere, national industry and commerce should be protected and private capitalism should be allowed to exist, provided that the development of the state economy was the mainstay. Mao's attitude towards private capitalism at that time was to restrict and make use of it and gradually transform it to make it part of the state-run economy in order to strengthen the planning of the national economy. It is clear from the economic programme of this period that Mao's attitude towards the market had a positive aspect, and that the implication was to make use of the role of the market to make the transition to a socialist state in the new China. This dual system of planning and market operation based on a public and private enterprise system accelerated the recovery of the national economy.

But from 1953 onwards, China moved towards a path of full-scale emulation of the Soviet Union, that is economic development with priority given to heavy industry and a centrally planned

economic system based on a single public ownership system. The planned and market-based system of economic operation was not suitable for China to follow the Soviet path, and was difficult to match with the development of industrialisation that was about to unfold with a focus on heavy industry, as this plan required more capital accumulation and more centralised resource dispatch. Mao's view was that all resources must be concentrated in the hands of the state and the entire national economy brought under a centralised plan for a rapid transition to a socialist society. In order to achieve this goal, the Party led the people to carry out the Three Great Transformations, which led to the transformation of capitalist industry and commerce, mainly through the "peaceful redemption" of capitalists, so that private enterprises became public-private partnerships, equivalent to state-run enterprises. After the completion of the Three Great Transformations, the Soviet model of a highly centralised planned economy, based on public ownership and the allocation of resources by administrative directives, was largely replicated in China. The means used by the state to allocate resources changed directly from market regulation to direct management by the government, bringing all kinds of resources into the unified state management of planning and no longer attaching importance to market regulation, with the government playing a leading role in resource allocation and mediation before the reform and opening up.

## **1.2. The Relationship Between the Government and the Market after the Reform and Opening Up**

The Third Plenary Session of the Eleventh Central Committee was a great turning point in the reform process, and the major difference between this reform and the previous one was the estimation of market forces. At the State Council retreat in 1978, many economists criticised the "leftist" view of eliminating the relationship between commodities and money and suggested that the law of value should play a more important role. At the State Council retreat, Li Xiannian put forward the slogan of "combining a planned economy with a market economy". This slogan was apparently derived from Chen Yun's "three main bodies and three supplements" in 1956, and in addition, Li Xiannian put forward the idea of "planned economy as the mainstay, market regulation as a supplement" at the Central Working Conference in April 1979, and Deng Xiaoping's speech at the closing ceremony of the Central Working Conference in December 1978 also reflected the idea of devolving power to the market. However, for a long time afterwards, some people still insisted that "a socialist economy can only be a planned economy" and that "a market economy is equal to capitalism". It was not until Deng Xiaoping stressed in his Southern speech that a market economy was not the same as capitalism, that socialism also had markets, and that planning and markets were economic instruments, that the "system theory" was fundamentally broken and the "instrument theory" was established. [1] In October 1992, the 14th National Congress of the Communist Party of China put forward the goal of establishing a socialist market economy system, marking the formation of Deng Xiaoping's theory of a socialist market economy with Chinese characteristics.

The Decision of the Central Committee of the Communist Party of China on Several Major Issues of Comprehensively Deepening Reform, adopted at the Third Plenary Session of the 18th CPC Central Committee, pointed out that the reform of the economic system is the focus of comprehensively deepening reform, and that the core issue is to deal with the relationship between the government and the market, to enable the market to play a decisive role in the allocation of resources and to better play the role of the government, and to form a pattern in which the government and the market are "organically unified, complementary, coordinated and mutually reinforcing". This will facilitate the shift of China's economy from a stage of rapid growth to a stage of high-quality development, and the effective resolution of the main contradictions in Chinese society in the new era.

## 2. The Significance of Combining Proactive Government with Efficient Markets

At various periods and stages of nation building and reform, we have interpreted the relationship between the market and planning to varying degrees. In particular, from the 14th National Congress, when a socialist market economy was established, to the 18th National Congress, the boundaries between government regulation and market regulation have been clarified, and the breadth and depth of market allocation of resources and government macro-control have been constantly synchronised. It is a fundamental breakthrough in the concept of opposing government regulation and market regulation, not simply emphasising government regulation nor market regulation. The Fifth Plenary Session of the 19th Party Central Committee formally proposed to promote "a better combination of a responsive government and an effective market", further clarifying the roles played by the market and the government in resource allocation and the boundaries of government functions.

This clarifies the boundary between the government and the market, and the combination of the government and the effective market is a catalyst for deepening the reform of the economic system in the new development stage, and is the way to implement the new development concept to promote high-quality economic development.

### 2.1. A Necessary Requirement for the Reform of Tte Economic System in the New Development Stage

The focus of reform in the new development phase is to vigorously promote marketing reform, to solve the problem of government "overreach", and to return the opportunities belonging to the market to the market.

The methodology of the "two-point theory" is reinforced by "a responsive government and an effective market", as General Secretary Xi Jinping (2014) points out: "Learn to correctly use the invisible hand and the visible hand, and become adept at navigating the relationship between government and market relationship." [2] This also requires the government and the market to define more clearly the boundaries of their functions, to leave to the market what the government should not manage, to leave to the market those economic activities that can be effectively regulated by the market mechanism, to promote the allocation of resources to maximize effectiveness and optimize efficiency, and to give enterprises and individuals more vitality and space to develop the economy and create wealth. When market failure occurs or is expected to occur soon, the government should intervene appropriately, play its functions effectively, strengthen macroeconomic regulation and control, and carefully manage the things that should be managed. It is thus clear that, under the new stage of development where the goals are higher and the challenges are greater, handling the relationship between the government and the market is an inevitable requirement to show the strong advantages of the socialist market economy system.

### 2.2. It Is the Way to Promote the Construction of A Modern Economic System

Building a modern economic system is the strategic goal of China's modern development, and is also an urgent requirement for transforming the mode of economic development, optimising the economic structure and changing the dynamics of economic growth. Only by building a modern economic system can we adapt to the changes in science and technology innovation, the new needs of the people and achieve high-quality development.

The modernised economic system takes the reform of the economic system and economic institutions as an integral part of its own construction, which fully illustrates that in the construction of the modernised economic system, economic development should be coordinated with the economic system and its institutions. Then the improvement and

development of the economic system and its institutions cannot be separated from the role of the government. The report of the 19th National Congress clearly puts forward that the basic socialist economic system and distribution system of China must be adhered to and improved, emphasising the importance of adhering to the decisive role of the market in the resource allocation mechanism and giving better play to the role of the government. To build a modern economic system, it is particularly important to promote the transformation of scientific and technological innovation forces, as well as to solve the "neck" problem. Only by adhering unwaveringly to the core position of innovation can we break away from the plight of being constrained by others and move from the top end of some fields to the top end of the world, achieving the transformation from big to strong. Whether it is the government or the market, relying closely on unilateral strength is not a task that can be accomplished. The driving force for innovation comes from the needs of the market, and the relevant institutional mechanisms need to be provided by the government, which requires the combination of a competent government and an effective market.

### **3. A Further Path to Combining Responsive Government and Effective Markets**

#### **3.1. Fully Clarify the Reasonable Boundary Between the Government and the Market and Strengthen the Cooperation Between the Government and the Market**

Practice since the establishment of the socialist market economy system has proved that fully clarifying the reasonable boundaries between the government and the market and strengthening the cooperation between the government and the market on this basis is the only way to promote economic and social development and further realise the combination of a competent government and an effective market. On the one hand, the government should "further withdraw and decentralise the approval of administrative permits. The development of the market economy is fast-changing, and the government's administrative approval system that exceeds its authority undoubtedly disrupts the market system and fetters the vitality of market economic development." [3] The government should simplify and decentralize the administrative approval, the market has strong flexibility in resource allocation, if the government is too complicated in the procedure of administrative approval, it will inevitably cause the lag of market regulation, so the government simplifies and decentralizes the government and improves the efficiency of the work, which can further stimulate the market vitality and guide the social creativity. The market should be led by the government in a reasonable manner and give full play to its effective determination in the allocation of resources.

#### **3.2. Reflecting the Strong Focus of Government and the Effective Determination of the Market in A Higher Goal**

In the construction of a high-level socialist market economy, we must adhere to the "two unwavering" principles and deal with the relationship between the government and the market in deepening the reform of the ownership system. Firstly, the development of the public sector economy is a prerequisite. The proportion of the public sector in the economy is a fundamental marker of the distinction between socialism and capitalism, and we must stand firmly on the foundations of a socialist society without wavering. This makes it even more necessary to rely on the government to play a greater role in the new goal we are moving towards, the higher goal of achieving common prosperity for all people. Third, to give full play to the strong focus of the government and the effective determination of the market. Thirdly, the effective determinacy of the market is reflected in the construction of a unified, open, competitive and orderly modern economic system, where various factor resources are gathered in advanced

manufacturing, the Internet, big data and artificial intelligence through the market mechanism, so that the two roles of a competent government and an effective market can become a powerful force in promoting the high-quality development of China's economy in an integrated development.

In short, the socialist market economy, from exploration to establishment to perfection, has always revolved around the combination of the role of the government and the market. The depth of the combination of a competent government and an effective market has also determined the height of our social development. History and practice have proved that the relationship between the government and the market is not set in stone, but is constantly adjusted according to different development goals and stages, so as to make it compatible with the economy and society.

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