Exploring the Dialectical Relationship between China's Supply-Side Structural Reform and the Western Supply School------ Based on the Macro-Level

Yibo Li *, Yuyang Lin

Macau University of Science and Technology, Macao, China

* Corresponding author: liyiboqwer@outlook.com

Abstract. This paper examines the differences and connections between China's supply-side structural reform and the Western supply school based on four aspects: economic background, reform purpose, underlying theories and propositions, and reform path, and clarifies the essential differences between them. Supply-side structural reform is a unique idea proposed by China in the face of economic structural imbalance and in order to achieve sustainable development. It is an innovative result of combining the principles of Marxist political economy with the practice of China's national conditions, and helps to realize the transformation and upgrading of China's economic structure.

Keywords: Supply-side structural reform, supply school, distinction, linkage.

1. Introduction

General Secretary Xi Jinping first proposed supply-side structural reform in the 11th meeting of the Central Leading Group of Finance and Economics in 2015, and then political economists discussed and studied the relationship between China's supply-side structural reform and the "supply school" and "Reaganomics" in Western economics. "The year 2021 is the opening year of China's 14th Five-Year Plan, the historical intersection of the "two hundred years", and the realization of the second hundred-year goal is the focus of work in the coming period. In addition to making use of their respective strengths, each city and province should also make up for their shortcomings, diversify and enrich their industries, and optimize their industrial structure and supply and demand structure. Since both the supply school and supply-side structural reform start from the "supply side" and stimulate production through tax cuts to stimulate economic growth, some scholars propose that the supply school's supply doctrine is the main economic connotation of supply-side structural reform (Meng Xiaojin, 2018; Zhao Qinqin, 2016); while some scholars believe that supply-side structural reform is the latest achievement of socialist political economy with Chinese characteristics under the theoretical basis of Marxist political economy (Chen Xinyu and Zhang Xingshan, 2019), which is essentially different from the economic ideas of the supply school. In this regard, this paper attempts to study the relationship between China's supply-side structural reform and the supply school in terms of economic background, purpose, theoretical basis and viewpoint, and the path of reform, respectively, and to explain how supply-side structural reform can help China achieve socialist modernization in the new development stage.

2. The difference between the supply school and the supply-side structural reform

2.1. Different economic backgrounds

2.1.1. The supply school of thought that emerged under economic stagflation

The supply school, also known as "supply economics", is divided into moderate and radical schools, and this paper focuses on the supply school represented by the radical school of Laffer, Wanniski, and Kemp. This school inherits Say's law and rejects Keynesianism, which emphasizes economic demand, and focuses on examining the current economic situation and seeking

countermeasures from the supply side independently of demand, which is a revolution against Ennsianism (Ma Jie, 2017). The representatives of the supply school had a consistent view on the causes of and solutions to the "stagflation" in the U.S. and U.K. economies at that time, but did not establish a corresponding theory and policy system.

The supply school is a product of anti-Keynesian economics in the context of economic stagflation in the United States. After the Second World War, Keynesianism was taken as a standard in Western economics. The United States and some developed countries in Western Europe used it as the main theory to formulate policies and manage the economy on the demand side, which made a high contribution to the post-war world economic recovery, and economic historians call the twenty-five years when Keynesianism prevailed as the "long boom period" of the post-war U.S. economy (also called the "golden period"). Golden Age"). According to Keynesian theory, high unemployment brings low inflation, while high inflation generates low unemployment, and high inflation with high unemployment does not. However, in the late 1970s, the U.S. economy fell into a "stagflationary" situation in which economic growth stagnated and inflation was accompanied by high unemployment (HUF, 2020). Keynesianism, famous for solving the "Great Depression" problem, could neither explain the causes of this problem nor propose a solution to the current problem, and Keynesianism was thus seriously challenged by the real economic problems, and the supply school was born and soon gained the favor of the American and British governments.

2.1.2. Supply-side structural reform in the context of structural imbalance of the economy

China's supply-side structural reform starts from the supply side and production side, uses reform to promote the restructuring of supply and demand, improves the quality of supply and total factor productivity, enhances the adaptability and flexibility of the supply structure to respond to changes in market demand, achieves a balanced supply and demand structure, creates new momentum for China's economic development, and thus achieves high-quality development in the new development stage.

Under the influence of a series of internal and external factors such as the gradual reduction of the demographic dividend, the further accumulation of risks of the "middle-income trap" and the profound changes in the international economic landscape, China's economic development has entered the "new normal", with increased downward pressure on the economy and economic development from high speed to medium speed. economic development from high speed to medium to high speed. The demand-side "troika" is growing slowly, and there is a surplus of low- and middle-end products, many inventories, and gradually excess production capacity; however, the supply of high-end products is insufficient, high-tech industries are lagging behind, and the inefficiency of the supply side cannot supply products to meet national demand; the economy has a structural imbalance between supply and demand, and the main aspect of the contradiction is on the supply side (Shen Jianqi, 2018). , 2018) . The rise in the prices of labor, resources, land and other factors, as well as the deterioration of the ecological environment, social and production costs are growing too fast, while investment is declining, the economy as a whole is over-leveraged, the overall profitability of the economy is declining, the traditional economic growth approach is unsustainable, and the growth momentum continues to decline. Therefore, in response to the predicament of the "new normal" - the structural imbalance of the economy and the decline of growth momentum - China has proposed "supply-side structural reform" from the perspective of improving the quality of supply and adjusting the economic structure. ", using the reform method to promote structural adjustment.

2.2. Different purposes of reform

Because the context in which they are proposed is different, and therefore the problems to be solved are different, there is also an essential difference between the supply school and the meaning of the goals of supply-side structural reform.

2.2.1. The reform purpose of the supply school

The supply-side school was confronted with the problem of how to achieve equilibrium in developed economies in the midst of cyclical fluctuations in supply and demand aggregates (Chu, 2017), which was proposed to solve the problem of "stagflation" that was common in Western countries at that time; to change the supply-side of the long-standing government intervention in the economy that led to It was proposed to solve the problem of "stagflation", which was common in Western countries at that time; to change the serious socio-economic problems caused by excessive government intervention in the economy, such as "fiscal deficit, economic stagnation, inflation, and high unemployment"; to restore economic growth and employment growth with productivity growth, stabilize prices, and achieve a balanced budget; and to restore economic liberalism, reduce government intervention, release and stimulate investment and production, and implement a laissez-faire market economy. The school of thought defends the interests of the bourgeoisie.

2.2.2. The purpose of supply-side structural reform

The supply-side structural reform in China, on the other hand, faces the problem of optimal allocation of resources in developing countries represented by China. The supply-side structural reform was proposed at the beginning mainly to solve the problem of imbalance in the economic structure, to adjust the economic structure through reform while moderately expanding aggregate demand, to strengthen quality supply from the production field, to remove production capacity, inventory, leverage, reduce costs and fill short boards, to improve the quality and efficiency of the supply system, enhance the flexibility of the supply structure to demand, achieve a higher level of supply and demand balance, and make consumption productive.

In the new development stage, China is facing the problem of transformation of economic development kinetic energy. To achieve high-quality economic development, China must realize the transformation from labor-intensive to knowledge-intensive and capital-intensive production factors. Since the reform and opening up, "Made in China" has become famous all over the world, but "Made in China" still belongs to the production method which is less profitable and more damaging to the ecological environment. The fundamental purpose of supply-side structural reform is to improve China's social productivity, achieve the ideal goal of common prosperity, and gradually realize socialist modernization. Therefore, the supply-side structural reform confronts how to solve various structural imbalances in the process of China's economic development in order to promote high-quality and sustainable economic development, achieve effective allocation of resources, and improve the socialist market economy system. As China's economy shifts from the stage of high-speed growth to the stage of high-quality development, the supply-side structural reform will help China's economy cultivate new momentum for development, gradually establish and form an institutional mechanism for innovation-driven development, and improve the world competitiveness of Chinese products.

2.3. Different theoretical foundations and claims

The background and purpose of the supply-side structural reform are different from those of the supply-side school, so there are also essential differences in the theoretical basis and propositions.

2.3.1. Theoretical basis and views of the supply school

The theory of the supply school originated from the ideas of classical economics, and the Say's law, which was developed from the influence of the "supply side" factors on economic development highlighted in Adam Smith's Wealth of Nations, became the theoretical pillar of the supply school, and the "Laffer curve" was proposed. The theory became the essence of the supply school of thought (Du Yachao, 2018). The essence of its theory is capitalist political economy.

The supply school, starting from Say's law, separates the supply side from the demand side (Chen, Xinfeng, Zhao, Pingli, and Zhao, Ziguang, 2017), one-sidedly emphasizes the supply side and denies the demand side, arguing that supply automatically creates demand, that supply is the only source of economic growth, and that the government should stimulate supply aggressiveness instead of demand. In the theory of capitalist market economy it is assumed that supply and demand are always in

equilibrium in a free competitive market economy, that the market can regulate supply and demand by itself, that full-scale overcapacity cannot occur in a perfectly competitive market, and that government intervention only undermines the automatic adjustment mechanism of the market economy and damages the supply forces in the economy when the intervention is not appropriate. For example, in the world economic crisis that broke out from 1929 to 1933, the supply school believes that the recession was not caused by the lack of effective demand, but by the failure of the market adjustment mechanism caused by a series of wrong policies implemented by Western governments at that time. The supply school unilaterally emphasized that the state should not intervene in capitalism and business, and advocated restoring a laissez-faire market economy, giving full play to the decisive role of the market, and reducing social welfare spending.

2.3.2. Theoretical basis and views of supply-side structural reform

The supply-side structural reform is the latest achievement of socialist political economy with Chinese characteristics based on the theoretical foundation of Marxist political economy and the guidance of socialist theoretical system with Chinese characteristics, and is a successful practice of socialist theory with Chinese characteristics. The supply-side structural reform follows the "dialectical unity of productive forces and relations of production" and "Marxist theory of social production and reproduction" of Marxist political economy, and is based on the development situation of China under the theory of socialism with Chinese characteristics. Socialism with Chinese characteristics is based on the "theory of government-market relationship" and the "theory of innovation-driven development" (Chen Xinyu and Zhang Lei, 2019;). The essence of this theory is the political economy of socialism.

Unlike the one-sided, fragmented and limited viewpoint advocated by the supply school, the supply-side structural reform considers the social production process as a unified organism, emphasizes both supply and demand, and realizes a dialectical, unified and comprehensive view of the structural problems arising in China's economic development process. Combined with China's specific national conditions in the "new normal", China's structural reform on the demand side is mainly used for short-term and aggregate adjustments, while the supply side focuses on long-term growth dynamics and economic structure adjustments. The supply-side structural reform is a policy based on expanding effective demand to further improve long-term growth momentum, so that the supply structure can be more flexible and adapt to changes in demand. In addition, while realizing the decentralization of the government to play the decisive role of the market in resource allocation, it explains the role of government regulation and the necessity of its existence, not simply opposing state intervention in the economy, but requiring that the "two hands" of the market and the government must be brought into play, with the government playing a supervisory role through policy formulation and the implementation of active fiscal policy and stable monetary policy. The government, through the formulation of policies and the implementation of active fiscal policy and stable monetary policy, implements a supervisory role to improve the conditions for the full play of the role of the market, and makes timely adjustments when the market fails.

2.4. Different reform paths

2.4.1. Tax cuts and remarketing of the supply school

"According to the "Laffer Curve", the supply school believes that the U.S. tax rate has entered the "tax exclusion zone" and that the tax rate should be reduced to expand the total government revenue. At the same time, this school believes that tax rate is the most important factor to stimulate economic development, and the disposable income after tax directly determines the enthusiasm of enterprises and individuals to participate in economic development. supply and innovation R&D (Liu Qian and Pei Xiao Ge, 2017; Wan Fuqian, 2020). In addition to this, the supply school also calls for reducing state intervention in economic activities, restoring and improving the elasticity and regulation ability of the market mechanism, and implementing remarketing; and reducing government spending, especially on social welfare, too much of which will weaken people's motivation to work, save and

invest, which is not conducive to stimulating supply; at the same time, stabilizing the value of money by restoring the gold standard to control money to curb inflation.

2.4.2. Systematic and policy adjustment of supply-side structural reform

Supply-side structural reform "is neither a simple across-the-board tax cut, a reduction in government spending, a reduction in social welfare, nor a simple adoption of a tight monetary policy, nor a simple reduction in the regulatory role of the state in economic activities" (Wang Liang, 2019). In overcoming the dilemma of the "new normal" and in the new development stage of socialism, the supply-side structural reform needs to be a systemic reform and policy adjustment that involves a wide range of contents and tasks: (1) both deepening the supply-side structural adjustment and taking into account the demand-side management; neither attack nor demand can be fully achieved if any of them is neglected. The main contradiction of the supply-side structural reform is on the supply side, but the product positioning and market strategy of the supply products need to be demand-side in order to truly achieve the reform goals (2) to reduce taxes and fees for different enterprises to develop different tax rates, and the full implementation of the "camp reform" to promote (3) Reduce government intervention, relax government approval and management, give full play to the self-regulating role of the market and its decisive role in resource allocation, and unleash the potential of innovation and entrepreneurship. At the same time, it is also necessary to play the government's macro-control role, activate micro-policies, strengthen the government's supervision and regulation of the market, provide the market with a stable environment of fairness, rule of law and enthusiasm, deepen the promotion of "decentralization, decentralization and optimization of services", properly handle the relationship between the government and the market, and stimulate market vitality and social creativity. (4) combine active fiscal policy and stable monetary policy for macro-control, and encourage the active implementation of financial support measures to unify the efficiency and equity of economic development; (5) carry out systematic reforms in terms of labor, capital, land, technology, management and other factors of production to achieve the optimization of economic structure; and carry out overall structural issues in terms of industry, region, input, emission, power and distribution. (4) reforming overall structural issues in terms of industry, region, input, emission, power, and distribution; and building a social service system to promote all-round and multi-discipline optimization reforms.

3. The link between supply-side structural reform and the supply school

Although there are essential differences between the supply-side school and the supply-side structural reform, they both discuss the reform and development of the economy from the "supply side", and to a certain extent they both reflect the "decisive role of production or supply in economic activities", and reduce production costs through tax cuts to stimulate people and enterprises to produce, save and invest, increase productivity, and actively encourage innovation. In addition, they have also reduced production costs to stimulate people and enterprises to produce, save and invest, increase productivity, and actively encourage innovation. There are some ideas that we should learn from.

(1) "What concerns economic agents in their business activity is not the total amount of remuneration or profit received, but the net amount of remuneration or profit after subtracting all kinds of taxes" The motivation of individuals or enterprises to save, invest, produce and innovate depends on after-tax profits, and the increase of net profit by tax reduction stimulates production and investment of individuals and enterprises, thus stimulating growth of the economy.

(2) As pointed out by the "Laffer Curve", tax revenue is not always proportional to the tax rate, and before the tax rate reaches the highest point, tax revenue rises with the increase of the tax rate; but after the tax rate reaches the highest point, it enters the "tax rate exclusion zone", and the tax revenue falls instead of rising with the increase of the tax rate. Therefore, the government should ensure that the tax rate is within a reasonable range, not too high, and not too low when reducing taxes and fees.

(3) "The growth of a country's real income depends on the accumulation of its physical and intellectual capital, as well as on the quality and effort of its labor force." Intellectual capital brings people a technological revolution and great benefits to human beings, so people should be actively encouraged to invest in intellectual capital; to achieve high-quality economic development, intellectual property rights must be fully respected and protected, and innovation based on intellectual property rights is the backbone of China's international competition in response to the "unprecedented changes of the century", and is the solid foundation for China to achieve its second It is the solid foundation for China to achieve its second 100-year goal. The new development concept is to encourage innovation, which is an important hand in China's supply-side structural reform, and relies on innovation to achieve a high-quality supply of products to meet market demand.

4. Summary

In this paper, we have compared and analyzed the "supply-side structural reform and supply-side school of thought" from a macro perspective. The supply-side structural reform is proposed under the requirement of "sustainable development" and "structural imbalance of economy" when China enters into the "new normal". As the problem and the background are different, there is an essential difference in the purpose, theoretical view and reform path, and the supply-side structural reform in China cannot be regarded as a copy of the Western supply school.

Sort out the difference and connection between China's supply-side structural reform and the school of supply, and absorb and learn from the experience of the school of supply. In the new development stage, we must firmly sort out the new development concept, firmly rely on the guidance of the socialist theoretical system with Chinese characteristics, follow the Marxist political economy and combine it with the socialist political economy with Chinese characteristics, develop the socialist economic practice with Chinese characteristics, better understand the supply-side structural reform in China, and promote the supply-side structural reform in depth with an effective path to realize China's development from In order to realize the ambitious blueprint of China's socialist modernization, we should shift from "high speed" to "high quality" development.

References

[1] Meng Xiaojin. Research on the theoretical and practical innovation of supply-side structural reform [J]. National circulation economy, 2018 (18): 67 - 68.

[2] Zhao Qinqin. Background, theoretical basis and practical significance of the proposed supply-side structural reform [J]. Journal of the Party School of the CPC Nanjing Municipal Committee, 2016 (03): 39 - 42.

[3] Chen, X. Y., Zhang, L. The theoretical basis, realistic background and value implication of supply-side structural reform [J]. Journal of the Party School of the Shanxi Provincial Committee of the Communist Party of China, 2019, 42 (05): 55 - 60.

[4] Ma Jie. Supply school and supply-side reform in China [J]. Journal of Tianjin Business Vocational College, 2017, 5 (02): 20 - 24.

[5] Fang Fuzian. Supply-side structural reform, the supply school and Reaganomics [J]. Journal of Renmin University of China, 2020, 34 (03): 72 - 81.

[6] Shen Jianqi. A deeper understanding of the supply school and China's supply-side structural reform [J]. Journal of Economic Research, 2018 (36): 3 - 4.

[7] Chu S. Zhen. The difference between western economics supply theory and China's supply-side structural reform [J]. Contemporary Economics, 2017 (34): 136 - 138.

[8] Du Yachao. The difference between China's supply-side reform and Western supply economy theory [J]. Journal of Kaifeng College of Education, 2018, 38 (04): 262 - 263.

[9] Chen XF, Zhao PL, Zhao ZG. Supply-side reform: a comparative analysis of Chinese and Western economics [J]. Journal of Science and Technology Economy, 2017 (05): 283.

[10] Liu Qian, Pei Xiao Ge. Supply-school economics and supply-side structural reform discernment [J]. Learning and Exploration, 2017 (02): 93 - 97+176.

[11] Wang Liang. A comparative study of Western supply-school economic theory and China's supply-side structural reform theory [J]. China Market, 2019 (27): 19+27.