A reflection on borrowing from western economics

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Abstract

Purpose – Western economics came into being with the rise of the capitalist market economy. It had a nature of duality beginning from its birth: the justificativeness of providing theoretical pillars for the capitalist market economy system and the scientificity of revealing the internal relations and operating rules of the capitalist market economy. The paper aims to discuss this issue.

Design/methodology/approach – However, after the 1830s, this justificativeness gradually evolved into vulgarity. Since the 1930s, modern western mainstream economics has mainly explored the general market economy on the assumption that the capitalist system remains unchanged, and many outcomes of such research are positive and beneficial.

Findings – Political economy of socialism with Chinese characteristics, at the present stage, is mainly a Chinese socialist market economics. It is guided by the Marxist political economy and rooted in the great practice of China’s reform and opening up and socialist modernization.

Originality/value – According to political complexion, western economic theories can be divided into political economic theory, mainstream economic theory and basic economic theory. By subjecting these theories to what we term “elimination,” “transformation” and “transplantation” surgeries, respectively, we can absorb and accommodate their beneficial elements in building a political economy of socialism with Chinese characteristics, which in turn is conducive to the development and prosperity of such an economy.

Keywords Accommodation, Absorption, Beneficial elements, China political economy, Western economics

1. Introduction

Since the 18th National Congress of the Communist Party of China (CPC), President Xi Jinping has proposed to the academic circles the major historical task of building and constantly improving the theoretical system of political economy of socialism with Chinese characteristics (Jinping, 2016). Moreover, he also described the path toward realizing such a great historical task as follows: “To uphold and develop a political economy of socialism with Chinese characteristics, we should take the Marxist political economy as a guide, summarizing and refining the great practical experience of China’s reform and opening up, while drawing on beneficial elements from Western economics.” This thought is consistent with his speech at the Symposium of Philosophy and Social Science on May 17, 2016, which proposed that the development and prosperity of Chinese philosophy and social science should grasp and accommodate resources from three aspects, and it is also the embodiment of the “May 17” speech spirit in the construction and improvement of political economy of socialism with Chinese characteristics. In the “May 17” speech, Xi Jinping (2016) proposed that “the realistic form of philosophy and social science is the result from the accommodation of various knowledge, concepts, theories and methods from ancient to modern times. In particular, we should make good use of resources in the following three aspects. The first is the resource of Marxism, including the basic principles of Marxism, the achievements and cultural patterns of the sinicization of Marxism, such as the CPC’s
theories, routes, guidelines and policies; the path, theoretical system and institution of socialism with Chinese characteristics; the thoughts and achievements of philosophy and social science in China’s economic, political, legal, cultural, social, ecological, diplomatic, national defense, party building and other fields. This is the main content of philosophy and social science with Chinese characteristics, and also the largest increment of the development of philosophy and social science with Chinese characteristics. The second is the resource of excellent traditional Chinese culture, which is very precious and rare for the development of philosophy and social science with Chinese characteristics. And the third is the resource of philosophy and social science of foreign countries, including the positive achievements of philosophy and social science in all countries in the world, which can be beneficial nourishment of philosophy and social science with Chinese characteristics. Therefore, we should continue to make the past serve the present and the foreign serve the domestic, accommodate various types of resources and make constant innovations in knowledge, theories and methods.” Therefore, we must take the Marxist political economy as a guide for the construction, development and improvement of political economy of socialism with Chinese characteristics, and leverage and accommodate precious resources of Marxist political economy. However, it is not enough to just stop here, we must also transform the great practical experience of China’s reform and opening up and socialist modernization into theory and carry out theoretical refinement – the great practice of China’s reform and opening up as well as the modernization construction is the source of political economy of socialism with Chinese characteristics. Put another way, the economic theory drawn from the great practice of China’s reform and opening up as well as modernization construction will be the main body of political economy of socialism with Chinese characteristics. At the same time, we must accommodate resources of excellent traditional Chinese culture and positive achievements of foreign philosophy and social science, and draw lessons from the beneficial elements of western economics. Political economy of socialism with Chinese characteristics should be the development of Marxist political economy in contemporary China, which accommodates the positive achievements of modern philosophy and social science both at home and abroad, and should also be the sinicization, modernization and popularization of Marxist political economy in China. At the present stage, political economy of socialism with Chinese characteristics is the socialist market economics with Chinese characteristics that meets the demands of the development of China’s socialist market economy.

The paper mainly discusses why and how the foreign theories of western economics are used for the establishment, development and improvement of political economy of socialism with Chinese characteristics.

The following paper is divided into four sections: Section 2 discusses our re-recognition of western economics; Section 3 studies the relationship between the Marxist political economy, the modern western economics and the political economy of socialism with Chinese characteristics; Section 4 discusses how to draw lessons from western economics in the process of construction and improvement of the political economy of socialism with Chinese characteristics; and Section 5 concludes the paper.

2. The re-recognition of western economics

Western economics is the name given by Chinese scholars to the economic theories that have emerged and prevailed in developed western countries with a capitalist market economy[1]. It is a concept with rich connotations and somewhat vague extensions. Generally speaking, from the longitudinal perspective, it includes the economic theories originated from the western countries with a market economy from the seventeenth century to the present; from the horizontal perspective, it contains various schools, thoughts and branches of western economics. The western economics mentioned in the present paper
mainly refers to the basic principles of western economics, including microeconomics, macroeconomics, as well as the theories of mainstream schools of economics. And modern western economics refers to the mainstream western economics since the 1930s.

Western economics came into being with the rise of the capitalist market economy and gradually fashioned its theoretical system with the development of the capitalist market economy. Therefore, it is the concomitant of the capitalist market economy. Rooted in the soil of capitalist market economy, western economics was born with dual tasks. On the one hand, as a new capitalist market economic system and a representative of the industrial bourgeoisie of advanced productivity, western economics is devoted to theoretically proving that the emerging system of capitalist market economy is a natural and reasonable system in line with the human nature, as well as convicting that the tottering feudal system unwilling to quit the stage of history is an irrational and unnatural system that hinders economic development and social progress. On the other hand, western economics tries to uncover the physiological structure and internal relations of capitalist market economy from the production process or supply side, clarify relations of production, distribution, exchange and consumption, as well as the connection between them in the new system and analyze a series of problems of the operating mechanism of market economy such as the determinants of the value of commodities, the mechanism of price fluctuation, the relationship between price and supply and the relationship between demand and currency, so as to find the causes for the growth of capitalist wealth. Therefore, as an independent discipline of philosophy and social science, western economics has a nature of duality at the very beginning of its emergence: the justificativeness of providing theoretical support for the capitalist market economy system and the scientificity of revealing the inherent relations and operating laws of the capitalist market economy.

The dual nature of western economics – the comparative relation or proportion of justificativeness and scientificity is not fixed at any time, but varies dynamically with the change of the times and the development of the capitalist market economy. In general, during the period of the emergence and growth of the capitalist system around seventeenth to eighteenth century, the scientificity of western economics weighed more than the justificativeness, and most of its justificativeness had legitimacy, given that it was the historical trend and the great trend and logic of social development for the capitalist system to replace the feudal system, which theoretically provided the legitimacy and correctness for the justification of capitalist system. Moreover, during this period, the basic contradictions of capitalism were still in a latent state, without being sharpened and brought to the public, which enabled economists in this time to discuss objectively and scientifically the operating mechanism and development trend of the capitalist market economy. By the early and middle of the nineteenth century, as the capitalist system finally defeated and replaced the feudal system, it established a dominant position in the world, and the justificativeness of western economics greatly increased, and most of its justificativeness bore some vulgarity. This is because the capitalist system in this period encountered three challenges: the intensification of basic contradictions of capitalism, the rise of the utopian socialist thoughts and the birth of Marxism. During this period, western economics gradually replaced the discussion on the inherent relations and the essence of economic phenomena with the analysis of the superficial connections of them, and covered up the contradictions and disadvantages of capitalism with rhetoric. Marx described the western economics of this period (after the 1830s) as “vulgar economics.” British Economist Nassau William Senior proposed the last hour theory according to which the capitalists’ profit (surplus value) was produced by workers in the last hour of their working days. French Economist Frederic Bastiat put forward the theory of “economic harmony,” which held that the interests of all classes in capitalist society were harmonious. American Economist Henry Charles Carey elaborated the theory of reconciliation of class interests, which was the representative work...
of vulgar economic theory during this period. From the 1830s to the early twentieth century, from Jean Baptiste Say and Thomas Robert Malthus to Friedrich Von Wieser and Eugen Von Bohm-Bawerk, much of the content of western economics was about justifying the capitalist system and fighting against the Marxist political economy. Because this period was the period of consolidation of the capitalist system and extinction of the feudalism, the major task of western economists in this time was to resist and attack the Marxist theory and defend the capitalist system. The theory of Wieser and Bohm-Bawerk of Austrian School was a typical example of vulgarity of western economics. The latter, in Karl Marx and the End of His System published in 1986, argued that Marx's labor theory of value was inconsistent with the reality, and the theory of value proposed in the first volume of Das Kapital (the labor theory of value and the theory of surplus value) conflicted with the theory of value proposed in the third volume (the production price theory and the average profit theory), and thus the system of Marxist political economy has collapsed.

From the perspective of the development history of economics, since John Stuart Mill, the main line of development of western economics has gradually deviated from the discussion of capitalist production relations, and the direct arguments with the Marxist political economy have gradually decreased, with the research focus turning to the relationship between people and objects. The representative achievements of these research studies included the marginal utility theory and marginal productivity (rate) theory. In the twentieth century, especially after Lionel Robbins defined economics as “the science which studies human behaviour as a relationship between (given) ends and scarce means which have alternative uses” and its wide acceptance, the research objective of western economics mainly focused on the allocation of resources (Robbins, 1932). By the publication of John Maynard Keynes’s (1936) The General Theory of Employment, Interest and Money, the research objective of western economics extended to the areas of full employment or unemployment (resource utilization) and economic fluctuation, that is, from microeconomics to macroeconomics, from resource allocation theory to resource utilization theory. The capitalist system of this period has been consolidated, and there is no danger of it to be overthrown or subverted from within. The “October Revolution” of the Soviet Union in the twentieth century and the national liberation of some countries such as China did not take place in countries with established capitalist system. In the era of globalization, the struggle for rights, systems, ideologies, religions and beliefs among countries has become superior to the struggle for domestic interests. Therefore, since the 1930s, there has been a marked decline in the amount of theories of justificativeness and vulgar such as Senior's "last hour" theory. Although the “Great Depression” of the 1930s and “Stagflation” of the 1970s occurred in the twentieth century, the capitalist market economy, in general, was still in a period of development and expansion in that century. The 2008 international financial crisis struck a blow at the major economies in Europe, the USA and Japan; however, after years of reform and adjustment, these economies have largely recovered from the crisis. Against this background, how to effectively allocate and make full use of resources, how to stabilize and develop the economy has become the main research objective of western economics.

It is not hard to see that modern western economics after the 1930s was established on the basis of the assumption that the capitalist system remains unchanged, that is to say, it mainly studied a series of general problems of market economy, such as price, resource allocation, economic fluctuation and economic growth without consideration of capitalist production relations[3]. It can be said that the main content mainly focuses on studying the market economy in general while leaving aside the research of the capitalist system, especially on the market economy system and its operating mechanism. This shift of the research objective and research content has weakened the political, justificative and vulgar complexion of modern western economics, and strengthened its pragmatic components and
increased its positive results. Therefore, we cannot fully apply Marx’s evaluation of western
economics after the 1830s and simply classified modern western economics as “vulgar
economics.” The total negation or general negation of western economics would inevitably
exclude the possibility of borrowing the positive achievements from western economics.

Modern western economics mainly studies the economic phenomena and relationship
between economic variables, which has its vulgar side since it evades the inherent
contradictions and defects of the capitalist system, and implicitly presupposes that the
capitalist system is an eternal system. However, it is not hard to see that because modern
western economics has left the system factor aside, it is mainly concerned with the studies of
the general problems of the market economy. Most of these problems have little to do with
the particularity of the system, since these problems exist in both capitalist and socialist
market economies, such as the problems of relationship between price and supply and
demand, unemployment, inflation, economic fluctuation and so on. Without studying these
problems, it is difficult to find out the operatizing laws and general characteristics of market
economy, and it is impossible to solve the practical problems encountered by market
economy. It is undoubtedly important to study the inherent relations and substantive
characteristics of economic activities in an economy because it can grasp the root and
essence of economic problems, which is an inevitable requirement of the scientifcicity of
economics. However, revealing the inherent nature of economic phenomena should not be
the whole content of economics. As a practical science, the study of economics should also
include the analysis of the relationship between economic variables, the explanation of
common or frequent economic phenomena, the exploration of causes of economic problems
and the solution to economic problems. Not all economic phenomena and problems are
associated with specific systems or production relations, and some of them coexist with each
other in different economic systems. Therefore, the study of the constitutive relationship of
economy cannot and is unable to replace the study of the economic phenomenon itself and
the relationship between phenomena.

Modern western economics mainly studies general market economy, and these research
results contain scientifc content and positive significance. However, as a social science that
investigates people’s economic behavior and interests relationship, it cannot be detached
from politics, culture, history and interests tendency, and become a “pure” science. Economics studies “mankind” with beliefs, demands and interests tendency, and studies
“mankind” in a certain interests relationship, rather than “objects” in nature. Moreover,
economists themselves are “mankind” in real society. They inevitably have their own
positions, value orientations and interests motivations, and always hold different beliefs and
value judgments on different economic systems. Since the 1930s, modern western economics
has focused its attention on the study of market economy. Compared with western
economics in the period from 1830s to 1930s, the justificativeness and vulgarity of western
economics nowadays decreased significantly, but it does not mean that it completely gets
rid of the political complexion, as universal as calculus mathematics, Newtonian mechanics
and law of conservation of matter. Many western economists did acknowledge the
ideological or political complexion of western economics, admitting that it bore the “birthmark” of the society and system of its origin. Lloyd G. Reynolds (1971) wrote
in the Three Worlds of Economics: “modern economics was primarily cultivated in Western
Europe and the United States. Despite its desire for universality, it bore the stamp of
systems and problems peculiar to these regions.” William J. Baumol and Alan S. Blinder
(2015, p. 13) argued that one of the important reasons why economists were divided and
unable to reach a consensus on many issues was that “economists belong to different
political factions: conservatives, centrists, liberals and radicals. Each political faction had a
different value, so each had a different view of the ‘right’ solution to public policy problems,
even if they agreed on basic analysis.”
The duality of western economics enables us to separate its usefulness from its theoretical system so that it can be applied to the solution to China's economic problems. We should neither deny and discard the useful elements of western economics due to its political elements, nor the positive achievements of western economics due to its mainstream ideology of capitalism. Commenting on Feuerbach's simple rejection of Hegelian philosophy, Engels (Selected Works of Marx and Engels, Vol. 4, p. 223) pointed out: "it is not enough to subdue a philosophy by simply declaring it wrong. Such great works as Hegel's philosophy, which had such a significant influence on the spiritual development of the nation, could not be eliminated by simply ignoring them[4]. It can be only sublated in its significance, that is to say, we must critically destroy its form, but rescue the new content acquired through it." Marx and Engels' attitude toward sublating rather than simply discarding or completely rejecting Hegelian philosophy can serve as a guide to our attitude toward western economics. Although the "hairs" of western economics are attached to the "skin" of the capitalist system and contains the genes of this "skin," such "hairs" can be separated from the "skin" and used independently through modification and processing. The theoretical source of Marxist political economy is the classical English and French economics at that time. The model of Marx's treatment of English and French classical economics can still be used as a textbook on how to treat western economics in the process of building and improving political economy of socialism with Chinese characteristics.

Chinese scholars have gone through different stages in their recognition of the nature and usefulness of western economics. From 1949 when the People's Republic of China was founded to 1978 before the reform and opening up, Chinese scholars called western economics "foreign bourgeois economic theories," emphasizing their class character and vulgarity. At the beginning of the reform and opening up, the overall evaluation of Chinese scholars on western economics was that western economics was anti-Marxist and bourgeois vulgar economics, which was generally wrong, but some of its concepts and methods were useful. With the deepening of reform and opening up and the demands of the construction of the socialist market economy, the scholars have increasingly realized that the main purpose of the introduction of western economics was not to criticize and negate it, rather, under the guidance of Marxism and in combination with the realistic conditions of China, to draw useful ingredients and positive achievements for the construction of socialist market economy, and to build and improve the political economy of socialism with Chinese characteristics through the systematic and serious research and analysis. The author thinks that criticism itself should not be regarded as the purpose of introducing western economics. It should be regarded as a means of "absorption," a cleaning agent and filter before "absorption." The purpose of "criticism" is to remove impurities and poisons for a better "absorption."

3. The relationship between Marxist political economy, western economics and political economy of socialism with Chinese characteristics
What is political economy of socialism with Chinese characteristics? What should be included in this economics? What is the paradigm and architecture of it? What are the main aspects of its innovation, development and characteristics? At present, the recognition of these problems has not reached consensus in Chinese academic circles. As an innovative, Chinese-style theoretical system, political economy of socialism with Chinese characteristics has made many important achievements, though generally speaking, it is still in the process of construction, development and improvement, and needs further exploration.

However, as stated at the beginning of this paper, comrade Xi Jinping has clearly clarified the nature and path of the construction of political economy of socialism with Chinese characteristics. The author holds that, in the period of the construction and
improvement of China’s socialist market economic system, political economy of socialism with Chinese characteristics is the socialist market economics with Chinese characteristics; it is the application, innovation and development of Marxist political economy in the reform and development of contemporary China, and it is the economics that can guide and manage the construction of China’s socialist market economy.

Taking Marxist political economy as the guide, originating from the practice of contemporary China, and in turn guiding this practice is the fundamental symbol that differentiates political economy of socialism with Chinese characteristics from other political economics. Marxist political economy is not only the soul of political economy of socialism with Chinese characteristics, but also the important theoretical basis of it. Political economy of socialism with Chinese characteristics emerged from and grew in the fertile soil of China’s reform and opening up and practice of socialist modernization. It took root in China and absorbed nutrition from China’s excellent traditional culture and great practice. “Political economy of socialism with Chinese characteristics can only be enriched and developed in practice, and should also be tested by practice and then guide practice in turn” (Jinping, 2016). This section mainly discusses how to accommodate the positive achievements of western economics in the process of building political economy of socialism with Chinese characteristics.

3.1 The general, special and innovative aspects of political economy of socialism with Chinese characteristics

As mentioned above, western economics has a nature of duality, which not only contains the factors of the mainstream ideology of that society and that era, but also provides the empirical research and theoretical interpretation of the development of human market economy. It reveals the mechanism of the operation of market economy and theoretically answers the basic questions of “what to produce,” “how to produce,” “for whom to produce” and “how to develop.” It also analyzes the relationship between many important micro-economic and macro-economic variables, and forms a relatively complete analytical framework and useful methodology system. Therefore, western economics can be used to explain the behavior of economic parties, understand the mechanism underlying the observed economic phenomena and provide bases and ideas for formulating economic policies and enforcing economic management. It is mainly a market economy with its research objective and sample being the western capitalist market economy. Socialist and capitalist market economies are two kinds of market economy with different natures of system. China’s socialist market economy is characterized by public ownership, distribution according to labor, people-centered development, common prosperity, state-owned enterprises, a decisive role for the market in the allocation of resources and a better role for the government. Although the system bases of market economy in China and the west are different, since it is a market economy that is carried out in both, there is a common aspect. This commonality is reflected in the fact that, no matter China’s socialist market economy or western capitalist market economy, the resource allocation mechanism is the same. It is the market mechanism that plays a decisive role in resource allocation and all economic operations follow the laws of market economy. Moreover, the law of value, the principle of profit maximization, the competition mechanism and the law of supply and demand also play a regulating role. This kind of commonality is the foundation of communication and coexistence of market economy with different systems. As for these two market economy systems, the system is the special and the market economy is the general. However, since the 1930s, modern western economics has left aside the analysis of system and mainly studied the general market economy, and many of its research results are useful for the construction of political economy of socialism with Chinese characteristics. As shown in Figure 1, in terms of the nature of the
system, socialist and capitalist market economies are essentially different, but many of them are the same or they overlap at the level of market economy. For example, both economies require the respect and maximization of individual interests under legal and moral constraints, the clarity and protection of property rights, the establishment and improvement of the market system and mechanism, the normal rather than distorted price signals that guide producers and consumers' behavior, the establishment and improvement of free competition order and legal system, the reconciliation between (general) supply and (general) demand, and the behaviors of individuals, businesses and governments in accordance with the laws.

Marxist political economy mainly reveals the general law of the emergence, development and extinction of capitalist system, so it takes capitalist production relations or modes as its research objective. Marxist political economy also studies the operating mechanism of the market, but these studies are not the purpose or main content of it, but serve the research objective of Marxist political economy. Since the twentieth century, modern western economics has mainly investigated the issues of resource allocation, economic stability and economic growth on the constant conditions of the capitalist system, with its focus on the analysis of market mechanism and market operation. Political economy of socialism with Chinese characteristics needed not only to inherit the tradition of Marxist political economy so as to provide the theoretical foundation for the basic socialist economic system, but also to conduct analyses of basic and general questions of “what to produce,” “how to produce,” “for whom to produce” and “how to develop” in socialist market economy, and eventually refined the practice and experience of creation and development of China’s socialist market economy into systematic theory. Only by doing this can make the research objective, content and system of political economy of socialism with Chinese characteristics not only a simple copy of the Marxist political economy, but also a different one from western economics (Figure 2).

Due to the fact that China’s socialist market economy system is different from the western capitalist market economy in terms of the foundation of system, purpose of production, goal of achievement, basic distribution system, stage of development, history and culture, it is required that the political economy of socialism with Chinese characteristics should also study the particularity of socialist market economy, economic relations included in this particularity as well as the impact of this particularity on the allocation of resources, national wealth growth, development strategy and development path.

That is to say, political economy of socialism with Chinese characteristics should not only investigate the general features of market economy, but also special features of socialist market economy, so as to create the system, content and characteristics that are different from both traditional political economy and western economics. The research
findings on the special features of China’s socialist market economy are the main innovative achievements of political economy of socialism with Chinese characteristics. These research findings should be able to answer a series of basic and major questions in the construction and development of China’s socialist market economy, for example: first, what kind of production relations, ownership structure and micro-foundation should China’s socialist market economy base on? What are the theoretical bases and binding points of combining market economy and the socialist economic system? Second, what are the differences between the foundation of socialist market economy and that of the capitalist market economy? What are the special features of socialist market economy with Chinese characteristics and what is the trend of it? Third, how to understand the stage of the development of China’s socialist market economy and its relationship with socialist economy with Chinese characteristics? Fourth, how to embody in the process of economic and social development the ontological property of people being the center and the masters of the country, and the concept of fairness, justice and common prosperity? Fifth, how to bring into play the advantages of both the socialist system and the market economy? Sixth, how to solve the problems of market failure and government failure under China’s socialist market economy system? Seventh, how to guarantee that China’s socialist market economy adapts to changes in demand, and continuously adjust and optimize its economic structure so as to ensure the steady and sustainable development of China’s socialist market economy through institutional reform and mechanism construction? Eighth, how to mobilize the initiative of individuals and enterprises through innovation of system and mechanism, and stimulate their innovative spirits so that China’s socialist market economy can obtain power source for sustainable development? Ninth, how to make enterprises of different ownerships compete on an equal footing and develop together?

To build and develop a market economy on the basis of socialist system, and to build a market economy in China, a big developing country in the orient of the world with a population of nearly 1.4bn, is unprecedented. It has neither been foreseen by the Marxist political economy, nor studied in western economics. The great practice of China’s reform and opening up and construction of socialist market economy system has added an innovative form to mankind’s market economy system or model. At the same time, political economy of socialism with Chinese characteristics will theoretically fill the gap of the socialist market economy in economics.

3.2 Analysis of resource allocation mechanism
As for the way of resource allocation, western market economy has been largely a mixed allocation mode since the second half of the twentieth century: market allocation and

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Socialist political economy with Chinese characteristics integrates the analysis of system and the analysis of market mechanisms
government allocation coexist or combine with each other, in which the market (mechanism) functions as the dominant way of resource allocation.

The mainstream or basic content of western economics is to demonstrate the effectiveness and advantages of market mechanism. From Adam Smith’s principle of “invisible hand” to Say’s law of “supply creates its own demand,” from Walrasian general equilibrium theory to Arrow–Debreu model of general equilibrium, and then to Lucas et al.’s “Rational Expectations Hypothesis” and “Lucas Critique,” all these theories are centering on the effectiveness of market mechanism. Although Keynes (1936) held the two defects of capitalist market economy: unable to guarantee full employment all the time, and unfair distribution of income and wealth, he still stressed that individualism and freedom were the advantages of capitalist market economy and the power source for the development of the capitalist economy. Western economics also analyzed the causes of market failure and put forward measures to solve it. However, these measures could only improve the role of market mechanism. Modern western mainstream economics placed more emphases on government failure, for example, Friedman and Rose’s (1990) “free choice” theory, the revival of Say’s law by the school of supply-side economics, the new classical macroeconomics’ real business cycle theory and the proposition of “inefficiency of policy,” the new neoclassical synthesis’ dynamic stochastic general equilibrium and unified growth theory (Galor and Weil, 2000; Galor, 2011) all centered on the core idea of government failure and market effectiveness[5].

The main task of the Marxist political economy is to prove that the economic and social illnesses which appeared in the nineteenth century were the inevitable results of the capitalist mode of production, and would be a sign of the decline and fall of this production mode. At the same time, it attempts to anatomize the capitalist mode of production so as to discover the production mode factors that are conceived within it and compatible with more advanced productive forces. The theory of surplus value, the theory of capital accumulation and the theory of social reproduction in the Marxist political economy aim to reveal the exploitative and antagonistic nature of capitalist commodity production and the inevitability of economic crisis. Marx and Engels speculated (Selected Works of Marx and Engels, Vol. 3, p. 817): “once society possesses the means of production, the production of goods will be eliminated, and the domination of products over producers will also be eliminated. The state of anarchy within social production will be replaced by planned and conscious organizations,” “from then on, it will be possible to carry out social production according to the predetermined plan” (Selected Works of Marx and Engels, Vol. 3, p. 671). According to the ideas of Marx and Engels at that time, the planned economy is a characteristic of socialist economic system, and the planning mechanism can realize the proportional development of national economy, so as to eliminate the possibility of periodic and general economic crisis of overproduction, which is one of the advantages of the socialist economic system.

According to the practice and experience of socialist economy since the twentieth century, especially since China’s reform and opening up, comrade Deng Xiaoping put forward innovatively (Selected Works of Deng Xiaoping, Vol. 3, p. 373): “larger proportion of planning or larger proportion of market forces is not the essential difference between socialism and capitalism. Planned economy is not equal to socialism, because capitalism also has planning; and market economy is not equal to capitalism, because socialism also has market forces. Both planning and market forces are economic means.” This proposition of comrade Deng Xiaoping broke through the dogmatic frame of “market (economic) mechanism = capitalism,” and provided ideas for separating market mechanism from capitalist market economic system and combining it with socialist economic system. This kind of combination created a kind of new market economy system – socialist market economy system.

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The socialist market economy system should not only give full play to the advantages of the socialist system, but also make good use of the advantages of the market mechanism, that is, better integrate the public ownership of the means of production into the socialization of production, bring into play the decisive role of the market mechanism in the allocation of resources and give better play to the role of the government.

China's socialist system has many characteristics and advantages. One of the characteristics is that it can keep up with the trend of the history and the people's desire to formulate a 30-year, 50-year long-term development strategy, and then decompose this long-term strategy into continuous 5-year mid-term development plan, and then crystallize this 5-year plan into specific annual tasks. This constitutes a complete and executable blueprint and implementation plan of economic construction and social development. Among them, the long-term strategy points out the objective of the struggle, the medium-term plan offers the path of implementation and the short-term objective clarifies the task of that year, which renders China's socialist modernization construction not only a clear direction and objective for a long time, but also specific tasks in different stages so as to achieve this objective, hence further ensuring that the long-term strategy can be gradually implemented, and long-term objective finally realized. This kind of development plan, which combines both long-term strategy and short-term tasks, decomposes them level by level and implements them step by step, is one of the important characteristics of China's socialist construction and development.

One of the advantages of the socialist system in the allocation and utilization of resources is that it can “concentrate its efforts on great things,” such as the construction of infrastructure and the production of other public goods, which has provided necessary conditions for China's leapfrog economic and social development, overcoming economic fluctuations and achieving stable and sustainable economic development[6].

China's socialist market economy is in the process of construction, growth and improvement, and is still just a "semi-market economy" far from reaching a mature or developed stage. At present, the market mechanism has not really played a decisive role in the allocation of resources. There are quite a few misallocations of resources in China's economy; however, these misallocations or market failures are not mainly caused by monopoly or externalities, but by incomplete development of the market system and mechanism, price distortion, especially factor price distortion, and inadequate and incomplete adjustment of the market mechanism.

In western countries with market economy, the market mechanism plays a decisive and full role in the allocation of resources after the development of market economy. When the spontaneous adjustment of the market mechanism fails to solve major economic problems such as underemployment and economic fluctuations, the government will get involved into economic activities and implement interventions. However, China carries out market-oriented reform on the basis of the planned economy system, in which the government concentrates on the control and allocation of resources after the founding of the People's Republic of China, introducing market mechanism and leading the way toward socialist market economy. Therefore, at the present stage of China, the government performs the function of resources allocation and the intervention on the condition that the market is not entirely developed and the regulating ability of market mechanism is not sufficient or strong. For this reason, it is hard for the government to avoid following the ideas and practice of the planned economy system in the allocation of resources and intervention in economic activities, such as relying on administrative orders and assigning tasks layer upon layer, economic decisions being made with a single word, a pen or even a willful act of cadres, etc.

The goal of further reform and construction of China's socialist market economy system is to develop and improve the function of the market mechanism, on the basis of which the
market mechanism plays a decisive role in the allocation of resources. Moreover, we should also innovate and improve the government’s ability of management and regulation, so that its actions conform to the principles of market economy and become scientific.

Therefore, the relationship between the government and the market in China’s socialist market economy is different from “the relationship between big market, small government” or “the trade-off of function of the government and the market” in western mainstream economics. It is also different from the relationship between the plan and the market in the mature or developed socialist system envisaged by Marx and Engels.

Based on the practice of China’s socialist market economy at the present stage, comrade Xi Jinping has creatively proposed that the relationship between the government and the market in China’s socialist market economy is a relationship of dialectical unity, rather than a relationship of trade-off as proposed in western economics. Xi Jinping (2014) pointed out that “on the issue of the functions of the market and the government, we should pay attention to the dialectic method and the doctrine that everything has two aspects. That is, we should make good use of the ‘invisible hand’ and ‘visible hand,’ and strive to create a pattern in which the roles of the market and the government are organically unified, mutually complemented, coordinated and reinforced, so as to promote sustained and sound economic and social development.” This implies that the political economy of socialism with Chinese characteristics should combine the analysis of market effectiveness and that of government effectiveness, and study the optimal combination or matching mode of the market and the government. As shown in Figure 3, the author holds that in China’s future socialist market economy system, the relationship between the market and the government should be a dual-effect integration pattern with both an efficient market and an efficient government. To achieve this dual-effect integration, we must encourage a two-way reform, promoting both market-oriented reform and government reform. It is only on the basis of this reform can the market play a decisive role and the government play a better role in resource allocation.

4. How to borrow from western economics

According to the above analysis, it is not difficult to find that some positive achievements or beneficial elements in western economics can be borrowed and need to be borrowed in the process of building and improving political economy of socialism with Chinese characteristics. However, it raises a further question of how to borrow from western economics. On the whole, western economics is a loose system composed of theories, methods and philosophical foundations, or a theoretical system composed of forms, contents and structures. Therefore, the question of how to borrow from western economics can be

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Western economics places more emphasis on the analysis of market mechanism effectiveness and government failure

Marxist political economy places more emphasis on the analysis of planned mechanism effectiveness and market failure

Socialist political economy with Chinese characteristics: analysis of market effectiveness + analysis of government effectiveness

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Figure 3. Analyses of resources allocation of three kinds of economics
discussed from different perspectives. This paper approaches this question from two perspectives: the development and evolution of western economics and the comparison between Marxist political economy and western economics, with the focus on how to borrow from the theoretical content of western economics[7].

According to the complexion of political inclination, the theory of western economics can be roughly divided into political economic theory, mainstream economic theory and basic economic theory. The political economic theory mentioned by the author refers to those economic theories with obvious political inclinations, the mainstream economic theory refers to the major theories that constitute the theoretical system of western economics and the basic economic theory refers to the theory of principles that mainly elaborates on the generality and commonality of market economy. If western economics is a theoretical building, then the political economic theory is the roof and exterior of this building, the mainstream economic theory is the four beams and eight pillars (building materials) of this building, and the basic economic theory is the foundation of this building. A building is different from other buildings, not due to their different foundations and building materials, but due to the different roofs and exteriors, which are largely determined by the structural design of the building – for economics, this is the construction design of different economic systems.

According to the above division, we can operate the following three “surgeries” on the theory of western economics, in turn to carry out transformation of “Sinicization,” so that it can be correctly used in the research of Chinese socialist market economy and serve the construction of political economy of socialism with Chinese characteristics.

The first is the “surgery of elimination.” The so-called “elimination” refers to the removal of the contents of western economics that are different from our political orientation and based on the position of western interests. Some theories in western economics have obvious political inclinations and interest biases, such as theories of western economics that deny the content of theory of labor creating value, oppose the application of materialist dialectics to system analysis, replace the interests of all mankind with the political and economic interests of big countries with capitalist system, force other countries to accept the system and rules based on the interests of a minority of big countries with capitalist system, deliberately obliterate and even maliciously slander the achievements of China’s reform and opening up and economic construction, describe the hegemonic act of big countries bullying small countries, strong countries bullying weak countries in the international economic relations as equal and mutually beneficial, reasonable, and so on.

The second is the “surgery of transformation.” The so-called “transformation” refers to the fact that some theories of western economics are established on different prerequisites and backgrounds from realistic situations or national conditions of China so that they cannot be directly copied, but demand the transformation and processing for application. Most of these theories belong to mainstream theories of western economics. For example, due to the difference in culture, tradition, customs and economic development stage between China and western countries, the factors influencing residents’ consumption demand in China are different from western countries, so the study of Chinese residents’ consumption behavior and consumer demand cannot thoroughly and directly follow the theory of consumption function in western economics, but reforms and reconstructs China’s urban and rural residents’ consumption function according to China’s realistic situations (such as the dual economic structure of urban and rural areas). Obviously, the Chinese people’s life philosophy of “raising sons to support parents in their old age, and saving grains to prevent hunger” is unheard of things to most westerners. This is not only related to China’s history and culture, but also to China’s past failure to establish a social security system. Since the 1990s, the reform of the employment, housing, medical care and education systems has affected people’s expectations and future uncertainties, and thereby, also affected the
consumer demand of Chinese residents. However, these influencing factors or reforming measures have no or little impacts on western developed countries (Fuqian, 2009).

The third is the “surgery of transplantation.” The so-called “transplantation” refers to the fact that some positive theoretical achievements in western economics can be directly used to analyze Chinese economic problems and explain Chinese economic phenomena. These theoretical achievements are created for the main purpose of describing the commonality of market economy or the common basis of market economy under different social systems, which are the basic theories of market economics. These theories generally do not contain political inclinations, such as the principle of price mechanism, the (aggregate) supply and demand (equilibrium) analysis framework, the cost–benefit analysis, the marginal principle (theory), the principle (and method) of national income accounting, the multiplier principle, the principle of determination and regulation of aggregate demand, the monetary policy transmission mechanism analysis, etc. These principles (and methods) can be used by both the western countries and China[8].

The author is going to use two examples to illustrate how to use the surgeries of “elimination” and “transformation” to borrow from western economic theories.

Marginal utility theory of value has always been one of the most controversial mainstream theories of western economics in Chinese economic circle, because this theory has conspicuous political complexion and is one of the political economic theories mentioned by the author. Even for such an economic theory, we can remove its ideological or political inclinations through the “surgery of elimination” and transplant its beneficial components in order for it to serve us.

Marginal utility theory of value takes the extent of marginal utility of consumers’ psychological perception as the factor in the determination of the value of goods, and tries to replace the labor theory of value in Marxist political economy with this subjective theory of value. Therefore, this theory has the nature of confrontation with Marxist political economy. It replaces the relationship between people and objects in the value of commodities with the relationship between person and person, and covers up the opposition between capital and wage labor in the process of capitalist production. Therefore, this theory has a vulgar aspect in nature.

However, as a theory to explain an individual consumer’s demand behavior, marginal utility theory of value has its rational and useful aspects. It holds that the individual demand curve slopes toward the lower right because of the law of diminishing marginal utility. The law of diminishing marginal utility proposes that, within a certain period of time, if the consumption of other commodities remains the same, the increment of utility (marginal utility) of continuously consuming a certain commodity will decrease with the increase in the amount of consumption, thus forming a marginal utility curve that slopes toward the lower right. It should be admitted that this phenomenon of diminishing marginal utility exists objectively. This is because everyone has his/her physical and mental limit on the desire for each commodity in a particular period of time. As the consumption of a certain commodity increases, his/her desire will gradually get closer to the physical and mental limit and the marginal utility obtained will decrease. This relationship between the consumption of commodities and the degree of satisfaction can be experienced by every customer. Therefore, the marginal utility theory of value provides the theoretical interpretation of the law of demand (“in general, the price of a commodity changes in the opposite direction of its demand”). Moreover, the value determined by the marginal utility in this theory is actually the demand price, that is, the price an individual consumer is willing to pay for a commodity. However, what Marx said about abstract labor determines the value of a commodity is based on the study that investigates the determinants of value from the production process or the supply side, that is, the determination of supply price. This kind of demand price is naturally inseparable from consumers’ subjective psychological
evaluation of commodities. The greater the level of satisfaction a commodity brings to consumers, the higher the price consumers are willing to pay. The economic thought of the relationship between marginal utility and demand price actually constitutes the theoretical basis of production and marketing concepts of “on-demand production,” “the market (demand) orientation” and “customer being God.” We should set up these production and marketing concepts in both the capitalist market economy and socialist market economy.

Based on the marginal utility theory of value, the conditions for the maximization of utility or equilibrium of consumers are as follows: assume that consumers’ monetary income and the market prices of various types of goods are constant, the ratio of the marginal utility of any two types of commodities is equal to the ratio of the prices of these two types of commodities or the marginal utility of any kind of commodity bought by consumers is equal to the ratio of the price of this commodity, as shown in the following equation:

\[
\frac{MU_i}{MU_j} = \frac{P_i}{P_j}
\]

In this formula, \(MU_i\) and \(P_i\) are the marginal utility and price of the \(i\)th commodity, and \(MU_j\) and \(P_j\) are the marginal utility and price of the \(j\)th commodity. The left side of Formula (1) represents consumers’ subjective psychological evaluation of the two commodities, and the right side represents market’s objective evaluation of the two commodities. Therefore, this condition for maximization of utility actually means that when consumers’ subjective evaluation of the two commodities is consistent with market’s objective evaluation (or the subjectivity complies with the objectivity), consumers achieve the maximization of utility by consuming the two commodities, thus obtaining consumer equilibrium. It can be seen that the philosophical basis of this theory is valid, and this theory contains beneficial elements, which can be used to explain consumers’ choice behavior. We can neither abandon the beneficial elements of this theory because it is opposite to the labor theory of value, nor can we deny its confrontation with the labor theory of value because it contains beneficial elements. On the basis of adhering to the labor theory of value, the marginal utility theory can be used to explain consumer demand behavior and consumer choice, that is, although we cannot use marginal utility to determine the (commodity) value mentioned by Marx, we can apply it to the analysis of consumer behavior. In order to eliminate the political nature of this theory, we can use “degree of satisfaction” to replace “marginal utility.”

Enterprise (firm) objective function (profit function) theory is one of the mainstream theories of western economics. This theory is based on the system background and economic status of western market economies, and therefore, it cannot be copied directly but transformed or “reshaped” in the analysis of China’s economic problems.

This theory was developed by western economists who studied the private capital and private enterprise behavior in western market economy, and it can also be used to analyze the behavior of Chinese enterprises. However, Chinese enterprises can be divided into state-owned enterprises and private enterprises according to their ownership, and their corresponding capital can be divided into state-owned capital and private capital. The profit function analysis in western economics is mainly targeted at private capital and private enterprises whose goal is to simply pursue the maximization of profit. Therefore, this model needs to be transformed or “reshaped” when the profit function theory of western economics is used to analyze the behavior and capital objectives of Chinese state-owned enterprises.

The capital of state-owned enterprises functions as the main connector between the basic system of socialism and the market economy and it has the double attributes of both fund and capital. As fund, it has the basic property of public ownership of means of production; and as capital, it has the same property of chasing profit maximization as
private capital. The double attributes of state-owned capital determine that state-owned enterprises have the duality of “economic man” and “public man.” On the one hand, state-owned enterprises as “economic men,” have the motivation to pursue the maximization of their own interests, the increase of profits and the preservation and appreciation of capitals. On the other hand, as “public men,” state-owned enterprises must proceed from the overall interests of the whole society and assume certain social responsibilities. Their behaviors must be subject to the country’s overall development strategy and objectives, and coordinate and give consideration to the interests of the state, the enterprise and the individual workers. Corresponding to the duality of state-owned enterprises is the duality of the incentive mechanism set up by the socialist market economy system: the simultaneous development of political (or spiritual) incentive and economic incentive. Political or spiritual incentives are mainly used to mobilize initiatives of managers and employees of state-owned enterprises through social recognition measures such as appraisals and awards, promotion of posts, administrative level, social status, participation in and deliberation on political affairs. Economic incentives are mainly used to motivate initiatives of managers and employees of state-owned enterprises through the annual salary system of factory directors and managers, executive stock option, acquisition and shareholding for the management, bonus, allowance and welfare for employees, implementation of shareholding for employees and other diversified economic incentives, as well as job security. Among them, the strength of political or spiritual incentives is often closely related to the size of state-owned enterprises. For example, for state-owned enterprises with large scale, great economic influence, high social status and close attention from the government, their managers and administrators are generally of high rank and have more opportunities for promotion. Moreover, their managers and employees are more likely to be elected as CPC representatives, NPC and CPPCC members. Therefore, due to the pursuit of higher and larger political or spiritual incentives as well as the objective existence of the soft budget constraints, all types of state-owned enterprises have the impulse of scale expansion and strength enhancement, with scale expansion being the foundation of strength enhancement. These dual incentives inevitably lead to the duality of production and operation objectives of state-owned enterprises: the pursuit of the maximization of profit and the pursuit of maximization of enterprise scale or the pursuit of the weighted sum maximization of profit and scale (Xinyu and Fuqian, 2012). Therefore, the behavior or objectives of state-owned enterprises cannot be described by copying the enterprise objective function in western economics. The heterogeneity of state-owned enterprises and private enterprises leads to the difference in the objectives of these two types of enterprises, and thus different objective functions are needed to describe their behaviors.

Based on the above theoretical analysis, it is assumed that private enterprises (represented by variable subscript $p$) possess Cobb–Douglas production technology with constant returns to scale, and the optimal behavior of Chinese private enterprises can be formulated as follows:

$$\max \pi_p = \left[ y_p - w_p h_p - (r_p + \delta_p) k_p \right],$$

(2)

s.t.:

$$y_p = A k_p^{x} h_p^{1-x}.$$  

(3)

Formula (2) is the profit function of private enterprise, and Formula (3) is the Cobb–Douglas production function, that is, the constraint condition; $\pi_p$ is the profit of private enterprise, $y_p$ is the output of private enterprises, $h_p$ and $k_p$ are the labor force and capital employed by
private enterprises, \( w_p \) and \( r_p \) are the wage rate and capital return of private enterprises and \( \delta_p \) is the capital depreciation rate.

Assume that state-owned enterprises (represented by variable subscript \( s \)) have the same production function as private enterprises, then the optimal behavior of state-owned enterprises should be expressed as follows:

\[
\max \theta_s = [\gamma(y_s - w_s h_s - (r_s + \delta_s) k_s) + (1 - \gamma) y_s], \quad (4)
\]

s.t.:

\[
y_s = A k_s^{\alpha} h_s^{1-\alpha}. \quad (5)
\]

In these formulas, \( \theta_s \) is the objective pursued by Chinese state-owned enterprises, \((y_s - w_s, h_s - (r_s + \delta_s) k_s)\) is the profit target pursued by state-owned enterprises; \( \gamma \) refers to the weight of the profit target, \( 0 < \gamma < 1 \); \( y_s \) is the output of state-owned enterprises. Taking it as the proxy variable of state-owned enterprises’ pursuit of scale target, \((1 - \gamma)\) represents the weight of scale target. As mentioned above, the production and operation objectives of state-owned enterprises have been defined as the maximization of the weighted sum of the pursuit of profit and the pursuit of scale, therefore, we assume the sum of the weights of the two objectives to be 1.

Formula (2) and Formula (4) describe the objectives and behaviors of private enterprises and state-owned enterprises, respectively, which is more in line with the realistic situation of China’s socialist market economy at the present stage.

5. Conclusion

Since the 1930s, mainstream western economics has mainly focused on the price determination, resource allocation, economic fluctuation and economic growth of market economy on the assumption that the capitalist system remains unchanged. Although the practice of China’s reform and opening up and economic development has gradually entered the research field of western economists since the 1980s, on the whole, western economics is the empirical research and theoretical interpretation of western developed market economies. The construction and development of China’s socialist market economy is an unprecedented and brand-new undertaking, and there is no ready-made and complete theory to be applied directly. Modern western economics mainly studies the general and common characteristics of market economy. These research results can be absorbed and borrowed by us. However, western economics is not established on the sample of China’s socialist market economy. The foundation upon which China’s socialist market economy is built and its particularity are not, and cannot be incorporated into, the analytical paradigm and theoretical framework of western economics. Moreover, modern western economics itself still has many problems and defects. Therefore, we need to use the surgeries of “elimination,” “transformation” and “transplantation” to absorb and borrow from western economics differently, so as to serve the construction and innovation of our socialist market economics.

Political economy of socialism with Chinese characteristics is a new seedling in the economic garden, with Marxist political economy as its seed gene. It takes root and grows in the fertile soil of China’s socialist market economy, absorbing nutrition from the great practice of China’s reform and opening up and modernization drive. In addition, it is an open system, actively absorbing historical and foreign nutrients to aid its growth. Just as Xi Jinping (2016) urged, “we should stick to not forgetting our class origin, absorbing from the outside, and looking into the future […].” With the continuous development of China’s socialist modernization, the political economy of socialism with Chinese characteristics is bred and produced in the process of reform and construction of socialist market economy,
enriched and developed in the practice, tested by the practice, and then guide practice in turn. It will be a tall tree in the garden of economics, contributing Chinese wisdom to human economics toolbox.

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**Notes**

1. LI Yiyuan, a Professor at School of Economics and Management of Tsinghua University, recalled that the term “western economics” was determined by GAO Hongye in 1979 after his discussions with CHEN Daisun of Peking University, MIN Qingquan and GAO Hongye of Renmin University of China.

2. “Justificativeness” should not be regarded as a derogatory term. Most mainstream theories in humanities and social sciences have a tendency to praise the authors’ era and provide theoretical support for the social system of that era. To justify what is progressive and correct is scientific, while to justify what is regressive and wrong is vulgar. Thus, justificativeness should not be equal to vulgarity.

3. In 1825, the first general economic crisis of overproduction occurred in Britain. Alfred Marshall defined economics as “a study of mankind.” The “mankind” mentioned here only refers to “mankind” in the ordinary business of life, not the “mankind” in specific production relations. According to Marshall (1890), “Political economy or economics is a study of mankind in the ordinary business of life: it examines that part of individual and social action which is most closely connected with the attainment and the use of the material requisites of well being” (p. 1).

4. This is about mainstream western economics. Some non-mainstream schools of modern western economics have studied the capitalist system from different perspectives, such as the new institutional economics, the Austrian school, the school of public choice and the new political economy.

5. After the end of the Second World War, the popularity of Keynesianism led the western capitalist market economy to the road of mixed economy. In fact, since the end of the nineteenth century and the beginning of the twentieth century, the governments of western market economies have intervened in the process of resource allocation through anti-monopoly and external tax and subsidy policies.

6. Although the results of scholars’ estimations of efficiency loss caused by misallocation of resources in China are different, the common conclusion is that China’s resource misallocation leads to a large loss of TFP. Hsieh and Klenow (2009) used the survey data of Chinese industrial enterprises from 1998 to 2005 and found that if resource misallocation could be eliminated, the TFP of China’s manufacturing industry could have been increased by 30 to 50 percent. Brandt et al. (2013) found that the average rate of TFP loss caused by misallocation of non-agricultural resources in China was 20 percent from 1985 to 2007.

7. With the development of science and technology (such as the development of big data and forecasting technique) in the future, it is possible that decision-making departments of government can obtain sufficient information about the quantity and structure of social members’ demands for various goods, services and production factors. On such conditions, it is likely for the society to possess and allocate resources (means of production) so as to achieve planned and proportional development of social reproduction.
It should be noted that this division made by the author is relative and not very rigorous, because the basic economic theory is also an indispensable major building material for the western economic theory system, and some political economic theories are mixed with the mainstream economic theories. Moreover, some contents and concepts in basic economic theory also contain certain political biases. For example, in the theory of western economics, the concept of firm (enterprise) refers to the private firms (enterprises), while in Chinese economics, the concept of firm includes state-owned enterprises and private enterprises. The concept of investment in western macroeconomics refers to private investment, while this concept in Chinese statistics and economics includes government investment, state-owned enterprise investment and private enterprise investment. The connotational difference in the concepts of firm (enterprise) and investment reflects the differences in the economic systems of market economy between China and western countries. The purpose of this division is to explain that the political inclination of the components in components of the western economic theory system is not a clear-cut one. But rather, the political inclination in the three kinds of theories is gradually decreasing; therefore, we should adopt different borrowing methods for these theories, and cannot adopt a one-size-fits-all approach.

References


Further reading


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