The logic of four decades of economic reform and major breakthroughs in political economy in China

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Abstract

Purpose – In the process of reform, although every landmark theoretical breakthrough is marked by the speech of the highest leadership of the Communist Party of China (CPC) or the decision of the CPC National Congress, each breakthrough is attributable to the theoretical contribution made by the academia of political economy. Notably, these theoretical breakthroughs invariably embrace innovations in the discourse system of political economy. The paper aims to discuss this issue.

Design/methodology/approach – The innovations and breakthroughs thereof have led to the political economy of socialism with Chinese characteristics.

Findings – The success of China’s economy highlights the superiority of the socialist economic system and development path with Chinese characteristics.

Originality/value – These major breakthroughs are accompanied by breakthroughs in relevant theories, which constitute a synthesis of a series of major theoretical innovations in political economics.

Keywords Political economy, Breakthrough, Economic reform

Paper type Research paper

The success of China’s economy highlights the superiority of the socialist economic system and development path with Chinese characteristics. The use of Marxist standpoints, viewpoints, and methods to perform scientific theoretical summarization is worthwhile. In retrospection over the past 40 years in China, as per the logic of economic reforms in this time span, every major progress in reform and opening-up has been preceded and propelled by major breakthroughs in the field of political economy. The innovations and breakthroughs thereof have led to the political economy of socialism with Chinese characteristics.

The logic of China’s 40-year economic reform is to clarify the stage of development, involving the theory of the primary stage of socialism and the theory of the new era, which have generated four dimensions of reform. The first dimension is the reform of the resource allocation mode, which is driven by the breakthrough of the theory of the socialist market economy. This theoretical breakthrough has clarified the direction of market-oriented reform. The second dimension is the adjustment of ownership structure and the reform of public ownership, which is driven by the breakthrough of basic economic system theory in the primary stage of socialism. The third dimension is the reform of the basic distribution system, which is driven by the breakthrough in factor payments theory. The fourth
dimension is the supply-side structural reform, which is driven by the breakthrough in economic operation theory. These four dimensions of reform constitute the major theoretical breakthroughs in the field of political economy. Each of these major breakthroughs is accompanied by breakthroughs in relevant theories, which constitute a synthesis of a series of major theoretical innovations in political economics. In the process of reform, although every landmark theoretical breakthrough is marked by the speech of the highest leadership of the Communist Party of China (CPC) or the decision of the CPC National Congress, each breakthrough is attributable to the theoretical contribution made by the academia of political economy. Notably, these theoretical breakthroughs invariably embrace innovations in the discourse system of political economy.

1. Clarification of development stage: a breakthrough in the theory of the principal contradiction facing Chinese society

Different stages of development presuppose diversified principal social contradictions. Accordingly, various reform theories and development concepts emerge. Two stages exist in the theoretical breakthroughs of the development stages in China’s 40-year reform: one is the theoretical breakthrough in the primary stage of socialism in preliminary reform, and the other is the theoretical breakthrough in the new era of economic development in the wake of the new era of socialism with Chinese characteristics. They are related to the breakthrough of the theory of the transformation of principal contradiction in Chinese society.

Theoretical breakthrough in the primary stage of socialism in the early days of the reform: The Third Plenary Session of the 11th CPC Central Committee summarized the class struggle-based outline while clearly shifting its focus to economic construction. It sounded the clarion call for reform and opening-up. Subsequently, Deng Xiaoping clearly stated that China’s socialism is in the primary stage. This means that when China entered the socialist society, she did not complete the tasks of modernization and marketization of production as other countries under capitalist conditions, that is, she needs to use the primary stage of socialism to complete modernization and marketization. The theoretical basis is the transformation and a new definition of principal contradiction in Chinese society. This has, for a long time, been defined as the contradiction between the proletariat and the bourgeoisie and between socialism and capitalism, thus taking class struggle as the outline. It is now defined as the contradiction between the growing needs of the people and backward social production. This definition can be said to be the first transformation of the principal contradiction in Chinese society. According to this definition, backward social production makes up the major aspect of contradiction. As proposed by Deng, the essence of socialism in the primary stage is the liberation and development of productive forces. Economic construction has thus fallen into the crosshairs of the CPC.

The primary stage of socialism is determined by the level of productivity development. The characteristic of socialism in the primary stage is expressed in the production relationship. On the one hand, the structure of production relations in the primary stage of socialism, public ownership and performance-based distribution cannot be one-size-for-all, eliminating private ownership and non-performance-based distribution. However, multiple ownership economies and distribution patterns must be developed, with public ownership as the mainstay. On the other hand, the socialist production relationship is still in its infancy, which necessitates multiform public ownerships and multiple approaches for performance-based distribution. Obviously, precisely because of the theory of the primary stage of socialism, China’s reform can break through the dogma of socialism beyond the current stage of development and the shackles of the traditional system. The theory of the primary stage of socialism has thus become an important theoretical cornerstone of China’s reform and opening-up.

Theoretical breakthrough in the new era economic development: At the 19th CPC National Congress in 2017, General Secretary Xi reaffirmed that China’s basic national
conditions, which are still in the primary stage of socialism, have not changed. Xi clearly indicated that China’s economic development has entered a new era, that is, an era of development from high-speed growth to high-quality growth. This development can be said to be a new breakthrough in the theory of development stage, reflecting a new breakthrough in the theory of principal contradiction in the Chinese society.

After entering the new era, although still in the primary stage of socialism, the principal contradiction in this stage has undergone a second transformation. On the one hand, the needs of the people are not only the increasing material and cultural needs in quantity but the growing need for a better life in terms of quality. On the other hand, after nearly 40 years of reform, the level of social productivity has improved markedly. The backward social production expressed in the past no longer reflects the reality of China’s economic and social development. Thus, the term has changed from the previous backward social production to unbalanced and inadequate development that cannot meet the needs of a better life. Therefore, the principal contradiction in the Chinese society has transformed into that between people’s ever-growing needs for a better life and unbalanced and inadequate development. This transformation has motivated socialism with Chinese characteristics in the new era.

Such a transformation has not changed the fact that China is still in the primary stage of socialism. It indicates the principal task of China’s economic development after entering a new era, clarifying the requirements for shifting to high-quality development. This is a feature of an era when the Chinese economy becomes stronger. In the new era, the main aspect of the principal contradiction in the Chinese society is the imbalance and inadequacy of development, which is to be solved by high-quality development to meet people’s need for a better life. With this priority in mind, changing the development concept and development model and carrying out structural reforms on the supply side are needed.

In general, the theoretical breakthroughs in the development phase over the past 40 years have come down to the fact that development is of overriding importance. Faced with the contradiction between the growing needs of the people and the backward social production, the development of productive forces is the top priority. Faced with the contradiction between the people’s growing need for a better life and the unbalanced and inadequate development, the economy needs to shift from high-speed growth to high-quality development. The contents of economic reforms at each stage are determined by the development tasks presented by the principal contradictions in the development phase.

2. Reform of resource allocation: a breakthrough in the theory of socialist market economy

China’s long-term implementation of the planned economic allocation of resources saw a breakthrough by the planned commodity economy. Several national seminars on the law of value theory in the early 1980s confirmed the planned commodity economy and released the mechanism of value law and market. On the basis of this idea, the concept of taking planned economy as the mainstay supplemented by market-based resource allocation is proposed. At that time, the reform aimed at expanding market-based resource allocation led to the gradual liberalization of the market, the prices, and the enterprises with conspicuous effects. The economy was invigorated by the market, the efficiency was improved by the market, and the original rigid system became elastic. This process laid the foundation for confirming the socialist market economy and comprehensively promoting market-oriented reforms.

The fundamental breakthrough in the theory of resource allocation is to confirm the socialist market economy. For a long time, people have believed that socialism can only be a planned economy and cannot be integrated with the market economy. The theoretical breakthrough of political economy is to clarify that the market economy is a resource allocation model not unique to capitalism. The socialist market economy is the integration of the basic socialist system with the market economy. Some aspects of the traditional socialist
basic economic system cannot, indeed, be combined with those of the market economy, but they can be organically integrated with the market economy in the reform. As General Secretary Xi stated, after reform, state-owned enterprises have generally merged with the market economy.

The socialist market economy as a resource allocation method was clearly defined for the first time by the 14th CPC National Congress in 1992: the market shall play a fundamental role in resource allocation under the state’s macroeconomic regulation and control. Therefore, what the enterprise produces, how it is produced and for whom it is produced is not directly arranged by the government but is regulated by the market, and the object of government regulation has been transferred from the enterprise to the market. The efficiency and vitality of economy have thus been escalated. The theoretical breakthrough of the socialist market economy promoted the shift of resource allocation to the market economy and clarified China’s market-oriented economic system reform. From the 15th to the 18th CPC National Congress, this definition has always been the guiding ideology for the market-oriented reform of China’s economic system. The theory of socialist market economy has thus become another theoretical cornerstone of China’s economic system reform. The core issue has become the management of the relationship between the government and the market. According to this definition, the reform of the resource allocation mechanism revolves around the framework of the state-regulated market and market-regulated enterprise.

At the Third Plenary Session of the Eighteenth CPC Central Committee, General Secretary Xi fully affirmed the theoretical contribution of confirming the socialist market economy and clarifying the fundamental role of the market in resource allocation. Xi (2013) clearly stated that this is a “significant theoretical breakthrough that has played an extremely important role in China’s reform and opening and socio-economic development, which also shows that theoretical innovation has a major precursor effect on practical innovation, the comprehensive deepening of reform must be primed by theoretical innovation.”

Upon entering a new era, the socialist market economy is endowed with a new definition. This definition is clearly stated at the Third Plenary Session of the 18th CPC Central Committee: the market plays a decisive role in resource allocation and better plays the role of the government. This change can also be said to be a new breakthrough in the theory of resource allocation. The role of the market in resource allocation has changed from a basic role to a decisive role. This shift indicates that the market is no longer under the control of the state, but it plays a decisive role autonomously and returns to the original meaning of the market economy. Its theoretical and practical significance is, as put by Xi (2013), the positioning of the market to play a decisive role in resource allocation, which is conducive to establishing a correct government–market relationship concept in the whole party and society, to transforming economic development model and government functions, and to curbing corruption and other negative phenomena.

Another element of the new definition of the socialist market economy is to better play the role of the government, which is integrated with the market’s decisive role in resource allocation. As Xi (2013) stated, “In terms of the role of the market and the government, we must adhere to the Dialectic Law and Two-Point Theory (the doctrine that everything has two aspects), attach equal importance to the ‘invisible hand’ and ‘visible hand,’ and put more efforts to form a pattern whereof the roles of the market and the government are organically unified, mutual complemented, coordinated and promoted to motivate sustained and healthy socio-economic development.” Xi (2014) The Third Plenary Session of the 18th CPC Central Committee incorporated the better play of the government role into the framework of the modernization of the national governance system and governance capacity. To better play the role of the government, two clear-cut rules exist: first, the responsibility and role of the government should be clarified. The government must primarily maintain macroeconomic stability, strengthen and
optimize public services, ensure fair competition, strengthen market supervision, safeguard market order, promote sustainable development, expedite prosperity for all and make up for market failures. Second, the requirement of better play means scientific macro control and effective government governance, which is an inherent requirement for exerting the advantages of the socialist market economic system. Here the roles of the government and market constitute not a zero-sum tradeoff but sufficient operations at different levels.

China’s economic system reform has been comprehensively deepened from two aspects on the basis of the abovementioned new breakthroughs in the theory of socialist market economy. On the one hand, market-oriented reforms have been further deepened. Focusing on making the market play a decisive role in resource allocation, improving the market and its mechanisms, and establishing a unified, open and competitive market order, the 19th CPC National Congress further proposed to improve the mechanism market-oriented allocation of production factors. On the other hand, the role of the government is ameliorated, while canceling and reducing on a larger scale the administrative examination and approval items, reform of streamlining administration, delegating more powers to lower-level governments and society, improving regulation and optimizing services is carried out, macro control mechanism is improved, and the national governance system and the governance capacity are modernized.

3. Reform of the basic economic system: a breakthrough in the theory of ownership
The theory of ownership is nothing short of the core content of Marxist political economy. Based on the theory of the primary stage of socialism, the breakthroughs in ownership theory since the reform mainly focused on the two aspects of the ownership structure of the primary stage of socialism and the connotation of the public ownership economy.

The first major breakthrough in ownership theory is the theory of ownership structure. Since the reform, the theory of ownership structure has broken through the pattern of public ownership as the mainstay and co-existence of multiple ownership economic entities. The theory has evolved into a pattern of public ownership as the mainstay and co-development of multiple ownership economic entities and the basic economic system in the primary stage of socialism, as defined by the Third Plenary Session of the 18th CPC Central Committee. In this way, the privately owned economy that used to be off-institutional became the intra-institutional part of the socialist basic economic system. The development of multiple non-public ownership economies broke through the limitations of the basic economic system. The significance of this theoretical breakthrough is that it developed the non-public ownership economy (non-public sectors of the economy) in terms of breadth and depth. Especially in the wake of the new era, the negative list system is implemented in areas where the non-public economy enters; as long as it does not affect national security, access will be given to non-public sectors in areas that involve no violation of national laws. This adjustment of the ownership structure enhances the vitality of the entire economy. According to Xi’s speech at the Private Economy Symposium in November 2018, the contribution of the private economy constituted over 50 percent to the state’s fiscal revenue, over 60 percent to the GDP and fixed asset investment and foreign direct investment, over 70 percent to corporate technical innovation and new products, and over 80 percent to urban employment. The private economy has thus made outstanding contributions in terms of steady growth, promotion of innovation, employment increase and improvement of people’s livelihood.

Another major breakthrough in the theory of ownership structure is that mixed ownership can be a realized form (implementation form) of the basic economic system, as clarified by the Third Plenary Session of the 18th CPC Central Committee. The shareholding system, the shareholding cooperative system, Sino–foreign joint ventures and the joint ventures of various ownerships are concrete forms of mixed ownership. According to this theory, the
The common development of public and non-public ownership can form not only across enterprises but also within an enterprise. The significance of this reform is that public and non-public capital can be mutually owned and controlled. Non-public enterprises can participate in the reform of state-owned enterprises and become the controlling shareholders; state-owned enterprises can also become shareholders of non-public enterprises. In practice, mutual bail out between private and state-owned enterprises may pull together during trouble. This is a win-win situation instead of the zero-sum or negative-sum situation where the state sector advances while the private sector withdraws, or vice versa.

The second major breakthrough in ownership theory is that of public ownership theory, which is first manifested in redefining public ownership as the mainstay. The development of a multi-ownership economy and a mixed-ownership economy in the process of reform will inevitably encounter the problem of the dominant status of public ownership. Past theories have particularly emphasized the purity of corporate ownership. Therefore, public ownership as the mainstay is defined as dominance in quantity. The practice of reform broke this dogma. The decision of the Central Committee of the Communist Party of China on several issues concerning the establishment of a socialist market economic system by the Third Plenary Session of the 14th CPC Central Committee clearly defined public ownership as “the dominant position of the state and collective assets in the total assets of the society, with the state-owned economy controlling the lifeline of the national economy, and playing a leading role in economic development.” The 15th CPC National Congress further stipulated that the public ownership economy includes not only the state-owned and collective-owned economies, but also the state-owned and collective-owned components in the mixed-ownership economy. This provision has important guiding value for economic reform. First, although the proportion of public enterprises has declined in terms of quantity, public ownership is still the mainstay as long as public assets are dominant. Second, the state-owned economy will be mainly concentrated in the lifeline of the national economy while not necessarily taking a dominant position in other competitive areas. Then, a strategic adjustment of the state-owned economy’s advancement or withdrawal will occur.

Another related breakthrough is the theory of realization form of public ownership. In the past, the realization form of public ownership was limited only to state-owned and collective enterprises. The 15th CPC National Congress clearly defined that the form of public ownership realization can and should be diversified. It clarified that the shareholding system can become a form of realization of public ownership. Accordingly, public assets operate in a wholly public-owned enterprise as well as in a mixed-ownership enterprise with non-public assets. The dominant position of public ownership is reflected in the control power of public assets in enterprises. Therefore, public-owned enterprises have established the modern enterprise system through the reform of the shareholding system and listing of companies. After mixed ownership becomes the basic form of realization of the basic economic system, public assets have different requirements for wholly owned, partially owned and controlling assets. The competitive fields are not necessarily wholly owned by public assets; involvement is sufficient. The lifelines of the national economy are not necessarily wholly owned by public assets, but absolute control is a must.

The third breakthrough is the theory of a modern property rights system. The Decision of the Central Committee of the CPC on several issues pertaining to the improvement of a socialist market economic system adopted by the Third Plenary Session of the 16th CPC Central Committee clearly stated that property rights are the main content of the ownership system. Moreover, it clearly required the establishment of a modern property rights system with clearly established ownership, clear-cut rights and responsibilities, strict protection and convenient circulation. The breakthrough of the theory of modern property rights system has expanded the space and depth for the study of ownership theory, which has further promoted the deepening of reform. The fruition of theoretical research on property
rights systems covers shareholding diversification in mixed ownership; the circulation, transfer and transaction of property rights; and the separation of property rights of the investors and legal persons in the shareholding system. In particular, after entering the new era, new progress has been achieved in the study on the property rights theory, which are prominently manifested in the following: the clarification of the inviolability of public and non-public property rights on the basis of the Two Unwavering guideline, which calls for efforts to unwaveringly merge and develop the public sector of the economy and unwaveringly encourage, support and guide the development of non-public ownership economy; enhanced state-owned capital; and the reform direction of the rural land property rights system featuring the Separation of Three Farmland Rights, i.e. clarifying land ownership, stabilizing land contracting rights and liberalizing land management rights to enable the convenient transfer of management rights. The report of the 19th CPC National Congress clarified that one of the two key points of accelerating the improvement of the socialist market economic system is to ameliorate the property rights system. The goal of reform is to achieve effective incentives for property rights.

The fourth breakthrough occurred in the theory of state-owned enterprise reform. Previous theories of political economy do not recognize state-owned assets as capital. The reform process has broken this dogma and clarified that state assets are also capital, which is a major breakthrough in itself. Given that state-owned assets are capital, a natural requirement exists for proliferation and appreciation. After entering the new era, the new progress of state-owned enterprise reform theory and its practice is highlighted in two aspects on the basis of the existing state-owned economic strategic adjustment and various forms of reform. The first aspect is the function-based reform of state-owned enterprises, which is divided into two categories, namely, commercial and pro bono (public welfare). Commercial enterprises are in the competitive field and pursue value proliferation in the same way as capitals of other types of ownership. Wherever commercial enterprises can proliferate, state capital flows to them. Public capital in a mixed-ownership enterprise does not pursue controlling power in the enterprise, but it must pursue the proliferating ability of the enterprise. Public welfare enterprises must guarantee the public interest; therefore, they are generally operated by public enterprises. However, public capital cannot be one size for all. Public welfare state-owned enterprises can also establish mixed ownership, allowing non-state-owned capital to participate in shares and attract non-public capital to participate. The dominant position of public ownership here is manifested in the control of mixed-ownership economy. Its control and power are not only manifested in its controlling position, but, more importantly, it also treats other ownership economies equally and shares the attraction of interests. The second aspect is the reform of the state-owned assets management system. The initial reform is the shift of the state from managing business operations to managing assets. After entering the new era, the management of assets shifted to the management of, principally, capital. Accordingly, the reform turned to the state-owned capital authorization operation system. Therefore, the reform was extended on the basis of the separation of government and enterprise to the separation of government and assets.

4. Basic distribution system reform: a breakthrough in the theory of factor payments

After the downfall of the Gang of Four, four seminars on the theory of performance-based distribution constituted an important ideological liberation movement at that time. In December 1978, the Third Plenary Session of the Eleventh CPC Central Committee fully affirmed the results of the seminars, clarified relevant issues, and examined the theory of performance-based distribution. At the Plenary Session, Deng Xiaoping indicated that keeping back the principle of more pay for more work and making light of the material interests could be acceptable to a few advanced activists but not to the masses; it could be
acceptable for a period of time but not for a long time. The radical clarification of the concept of performance-based distribution by the Third Plenary Session of the 11th CPC Central Committee, albeit only a breakthrough in the framework of the public ownership and planned economy at that time, faces up to institutional inefficiencies, recognizes material interests and material incentives, opposes egalitarianism, and recognizes income disparities. This situation has broken the bottleneck for further promotion of the distribution system reform.

A first breakthrough is the theory of get-rich-earlier and get-rich-later. In the early days of reform, based on the proposed idea that poverty is not socialism, egalitarianism is not socialism, and polarization between the rich and the poor is also not socialism, Deng proposed a major policy that allows some people in some areas to get-rich-earlier. This is as follows: “In terms of economic policy, I think we must allow some areas, some enterprises, and some workers and peasants to earn more and be better off earlier, given their sweats and good performance. This will inevitably generate great demonstration effects, affecting their neighbors, and driving people from other regions and other units to learn from them. In this way, the entire national economy will continue to develop under this ripple effect, so that people of all nationalities in the country can become richer in a faster manner.” He also clearly stated, “This is a big policy, a policy that can influence and drive the entire national economy” (Deng, 1983), correspondingly giving priority to efficiency with due consideration to fairness. The proffering of this major policy is a significant achievement of the integration of the Marxist theory of prosperity for all and the actual stage of China’s development. On the road to common prosperity, we recognize the difference between get-rich-earlier and get-rich-later, which is to allow and encourage people to get rich through hard work, wealth, investment and innovation; fully mobilize the various elements of wealth creation; and maximize the potential of all aspects of economic development. This theoretical breakthrough has greatly liberated productivity.

Under the conditions of socialism, getting rich earlier in some areas is not the purpose of the concept of prosperity for all but is a pathway. In fact, the CPC has carefully observed the expansion of the income gap while allowing some people in some areas to get rich first. The decision of the CPC Central Committee on Several issues pertaining to the improvement of a socialist market economic system required strengthening the adjustment of income distribution and addressing the problem of the excessively widening income gap of some members of society. With the goal of achieving prosperity for all, we will increase the proportion of middle-income earners, raise the income level of low-income earners, regulate excessive income and prohibit illegal income. Considering that the problem of unfair distribution seriously affects the further improvement of efficiency, the 17th CPC National Congress held in October 2007 clarified that the initial distribution and redistribution must properly manage the relationship between efficiency and fairness and that redistribution shall focus more on equity. Moreover, the proportion of household income in the national income distribution should be increased gradually, the proportion of labor remuneration in the initial distribution should be escalated, and a gradual reverse of the expansion of income distribution gap should be demanded. This idea means that the major policy that allows some people in some areas to get rich first needs to become a policy that enables the majority to be better off. The principle of giving priority to efficiency with due consideration to fairness needs to shift to the principle of attaching equal importance to efficiency and fairness.

The second breakthrough is the theory of income distribution structure. In 1987, the 13th CPC National Congress confirmed the primary stage of socialism. In line with this confirmation, several distribution methods were confirmed for the first time. At that time, the proposed approach was to implement a variety of distribution models with performance-based distribution as the mainstay. The 14th CPC National Congress confirmed the socialist market economy and clearly defined the distribution system as performance-based distribution as the mainstay, supplemented by a variety of distribution models, allowing production factors such as private
capital to share the distribution of income. The 15th CPC National Congress held in 1997 proposed, for the first time, to allow and encourage the production factors such as capital and technology to share the distribution of income. It clearly stressed the adherence to the system with performance-based distribution as the mainstay that coexists with multiple modes of distribution to integrate performance-based distribution with production factor-based distribution. The 17th CPC National Congress further proposed to adhere to and improve the distribution system with performance-based distribution as the mainstay that coexists with multiple modes of distribution to ameliorate the distribution system based on the contribution of production factors such as labor, capital, technology and management. It clearly proposed the creation of conditions to allow more people to have property income. In November 2013, the decision of the Central Committee of the Communist Party of China on some major issues concerning comprehensively deepening the reform of the Third Plenary Session of the 18th CPC Central Committee proposed a sound factor payments mechanism determined by factor markets such as capital, knowledge, technology and management. Summarizing the existing recapitulations, the complete factor payments mechanism depends on three factors: the input of factors, contribution of factors, and supply and demand of factors. These three factors combine to form actual income distribution. General Secretary Xi presided over the Central Political Bureau Study in November 2016 and clearly termed the system by considering performance-based distribution as the mainstay that coexists with multiple modes of distribution as the basic socialist distribution system. The report of the 19th CPC National Congress also proposed to adhere to performance-based distribution and improve the production factor-based distribution, thereby ensuring a rational, fair and orderly distribution of income.

Another breakthrough is the formation of a shared development concept. The income gap created by years of efficiency prioritization with due consideration to fairness peaked upon entering the new era (when the Gini coefficient reached 0.477 in 2011). Appropriate income gaps can promote efficiency, but excessive gap or economic inequality (rich–poor gap) will hinder low-income groups from sharing the fruits of growth and prevent efficiency from increasing. In this context, General Secretary Xi (2015) stated that the essential requirement of socialism and an important mission of CPC is to reduce poverty, improve people’s livelihood and achieve prosperity for all. According to this definition of the essence of socialism, allowing most people to get rich by sharing the fruits of development is necessary while continuing to implement the distribution system with effective and improved efficiency established in the reform and opening-up. Xi (2017) proffered the following idea at the Fifth Plenary Session of the 18th CPC Central Committee: “We must adhere to the principle of ‘development for the people, by the people, and shared with the people.’ More effective institutional arrangements shall be made to enable all the people to get more Sense of Gain (tangible benefits) in co-construction and sharing development. Implementing the concept of shared development, it comes down to two levels of things: first, fully mobilize the enthusiasm, initiative, and creativity of the people nationwide to promote the cause of socialism with Chinese characteristics, and continue to make the ‘cake’ (development fruition) bigger; second, cut the ever-grown ‘cake’ well, let the melody of the socialist system be more fully reflected and let the people have more Sense of Gain (tangible benefits).” This concept further clarified the direction of income distribution reform in the new era, stating that poverty alleviation needs to be implemented effectively and that middle-income groups should be expanded, thereby forming an olive-shaped distribution structure. Therefore, the concept of shared development is the sublimation of the theory of prosperity for all. From the essential nature of prosperity for all as defined by socialism, to the major policy that allows some people in some areas to get-rich-earlier, to prosperity for all achieved by those who get-rich-later being helped by those who get-rich-earlier, and to the shared development concept, an integrated theoretical system for achieving prosperity for all under socialist condition has taken shape.
5. Supply-side structural reform: a breakthrough in economic operation theory

The market-oriented reform that China has conducted continuously since 1978 is, in effect, the adjustment of the demand side. The effect is evident, but it cannot fundamentally solve the problem of quality and balance of the supply-demand structure. Therefore, at the end of 2015, General Secretary Xi proposed to promote the supply-side structural reform, which promoted a series of innovations in the economic operation theory in the new Era.

The first innovation is the theory of supply and demand. On the basis of existing demand-side reforms, the supply-side reform is proposed, seeking development momentum on both sides of supply and demand. Elevating the analysis of supply–demand relationship to macroeconomic management is nothing short of a major innovation. As General Secretary Xi (2017) stated, “Supply and demand are the two basic aspects of the intrinsic relationship of the market economy, which have a dialectical relationship that is both opposite and unified. Neither of the two can do without the other; the two are interdependent and mutually conditional; the supply side and the demand side are two basic means of managing and regulating the macro economy.” Demand-side management focuses on solving aggregate problems and on short-term regulation, and supply-side management focuses on solving structural problems and on long-term development. Clearly, these provisions are fundamentally different from the Western supply-side economics.

The second innovation is the theory for supply-side operational goal. The supply-side structural reform objectives are clearly defined as to improve the quality and efficiency of the supply system. As General Secretary Xi (2017) stated, “The structural reform of the supply side shall focus on liberating and developing social productive forces, promoting structural adjustment through reforms, reducing ineffective and low-end supply, expanding effective and medium-to-high-end supply, and enhancing the adaptability and flexibility of supply structure to demand changes, to escalate total factor productivity.” Specifically, the supply-side structural reform objectives are as follows: to promote the improvement of total factor productivity, to optimize the supply structure, and to cultivate new industries and new operation types. General Secretary Xi repeatedly used the concept of total factor productivity in his speech on supply-side structural reforms and effectively clarified the evaluation criteria for resource allocation efficiency. The quality transformation, efficiency transformation and power transformation proposed in the Report of the 19th CPC National Congress constitute the basic ways to improve the total factor productivity.

The third innovation is the theory for supply-side regulation methods. The structural contradictions between supply and demand in reality are concentrated on the supply side. The unsuitable demand for product quality, technical grade, hygiene and safety reflects the shortage of effective supply. At the same time, ineffective and low-end overcapacity exists. As Xi stated, “China’s supply system is very strong, but most of them can only meet low-end, low-quality, and low-price demands.” Faced with this unbalanced supply structure, economic restructuring cannot remain in a state of incremental capacity expansion but must shift to adjusting inventory and optimizing increments. Therefore, inventory structure adjustments such as de-capacity and de-stocking are adopted to provide room and resources for effective supply.

The fourth innovation is the supply-side motivity theory. The mobilization of the initiatives of all parties is a major principle of a socialist political economy with Chinese characteristics. The operation of the enterprise requires the motivity not only on the demand side but also on the supply side. The motivity on the demand side originates from the pressure of market selection, while the motivity on the supply side highlights economic incentives, which focus on the incentives to the real economy, thereby highlighting the incentives for market players: reduce costs, taxes, fees, interests and social burdens for enterprises to make them lightly loaded; protect and motivate entrepreneurship, highlighting the protection of entrepreneurial property and the encouragement of
entrepreneurship, with the ultimate goal of releasing the vitality of the enterprise; and reduce leverage. In view of the high-interest burden generated by enterprises due to excessive leverage, the investment and financing system needs to undergo a reform. The investment and financing structure of enterprises shall be transferred more from indirect financing of banks to direct financing and equity financing to establish a self-accumulating and self-regulating mechanism. Correspondingly, the development of multi-level direct financing capital markets will provide more tools that will allow enterprises to participate in capital market operations.

The fifth innovation is the theory of new drives. Economic development has shifted from high-speed growth to a new era of high-quality development. The demand for high-quality development on the supply side is no longer a matter of stimulating the supply of material resources. The drives of material resources and low-cost labor have subsided in the supply side of the new era. Other new drives, such as innovation drive, structural adjustment and efficiency improvement, can be developed on the supply side to promote economic growth. The driving force on the supply side is more sustained and stronger than the pulling force of the demand supply. Realizing the transformation of new and old drives constitutes the supply-side structural reform that affects China’s long-term development. The 19th CPC National Congress Report clearly requires the fostering of new growth poles and drives in the fields of mid-high-end consumption, innovation-oriented development, green low-carbon economy, shared economy, modern supply chain and human capital services through the deep integration of internet, Big Data and artificial intelligence with the real economy. Compared with the existing five major tasks of de-capacity, de-inventory, de-leverage, cost reduction and addressing weak links, this is an upgraded version of the supply-side structural reform.

The major innovations in the above economic operation theories have ushered in a series of supply-side structural reforms. These include improving the institutional mechanism where the market plays a decisive role in resource allocation, thereby promoting supply to adapt to changes in market demand; deepening administrative management system reform, breaking monopoly and local protectionism, and reducing institutional transaction costs; establishing effective incentive mechanisms to enhance the endogenous motivation of micro agents; promoting the institutional reform of the science and technology system and boosting the drive of innovation; establishing strict quality management mechanisms; and cultivating the spirit of craftsmen.

In general, the major breakthroughs in the field of political economy that promoted economic reform in the past 40 years invariably reflect the logic of the two-point theory and key point theory, which is determined by adhering to socialist principles or advancing reforms. Here, we present the key point theory from the perspective of reform. As far as the principal contradiction in the new era is concerned, it features the two points of the people’s need for a better life and unbalanced and inadequate development; the key point of overcoming this contradiction is to solve the latter. The theory of socialist market economy involves two points, namely, the government and the market as well as their relationship, and the focus is on market-oriented reform. As far as ownership is concerned, two points exist concerning public ownership as the mainstay and co-development of multiple ownership economic entities. The focus of reform is to develop several ownership economies. As far as the basic distribution system is concerned, it involves the two points of performance-based and production factor-based distribution. The focus of reform is to improve the mechanism of production factor-based distribution. As far as economic operation theory is concerned, it involves two aspects of the supply side and the demand side; the focus of reform is on the supply side.

The above discussion is only an analysis of the significant contributions of major breakthroughs in political economy to the economic reform of China as per the logic of these reforms in the past 40 years, wherein the benefits of these breakthroughs include China’s
opening-up and development as well as other aspects. This matter will be elaborated separately elsewhere. Overall, since the reform and opening-up, the breakthroughs in political economy theories have systematically established a socialist political economy with Chinese characteristics.

References


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