Study of the Respective Function and the Coordination between the Government and the Market

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Abstract. The relationship between the market and government is the core issue of the reform. This article attempts to discuss the market position, the role of government and how to form a pattern with organic unity and mutual promotion. The market’s adjustment is the first and the decisive; the government's macro control is the second and the auxiliary. The government needs to eliminate some intervention from the market and do something in solving the market failure.

Introduction

As the largest developing country of the world, we have plenty of fresh elements to understand and improve the relationship between the government and the market. Some of these practices and experience have not experience in other countries. Some ideas have put forward the challenges to the certain inherent ideas in western countries. The development road of our country has been noticed by the international community unprecedented.

From the "Basic" to the "Decisive": the Upgrade of the Market Status in "Quality"

In the 14th congress of the communist party of China, it had been put forward that the reform goal of our economy is to establish the socialist market Economic system, in this way, the market play a fundamental role under the macro-control. After that, the 15th congress proposed "make markets play a fundamental role under the macro-control in the allocation of resources"; The 16th congress proposed that markets play a fundamental role in a greater extent; The 18th Congress put forward to play the fundamental role widely. In the third Plenary Session of the 18th CPC Central Committee, the party put forward "make the market play a decisive role in the allocation of resources". This conclusion is not only the major breakthrough in the ideological liberation, but also the promotion in the quality.

The practice has proved that the market is the most effective way; this is not only the general rule but also the essence of the market economy. Emphasize that means: the market plays more important role than other forces on guiding the allocation of resources. The market’s function should be developed more fully. In this way, we can liberate the productive forces greatly and achieve the maximum benefits.

The Function of the Government in the Modern Market Economy

China is a socialist market mechanism, the decisive role means that market is not all the methods or weaken the function of market. In fact, the scientific macro-control and the effective governance are all the inherent requirements to make the advantage of our socialist market economic system.

The origin and the logic of government economic behavior. In the real economic life, the government have certain advantages as well as the market. These advantages come from the defects of the market. the market failure is a common phenomenon. Because of the incomplete market competition, the restrictions of the external market environment and other conditions, the market...
have no idea to solve questions about external effects or fair distribution. To this end, the government must use the "visible hand" to make up for the defects of the market. Obviously, the market failure is not only the reason of government economic behaviors, but also the standard of defining the scope of government interventions.

The clear definition of the function between the government and the market. The practice had been proved that both the market and the government are all the important hands in the real economy. The government's intervention is limited. Beyond the boundaries, it will be fail. Samuelson once said: "when the government policy can not improve the efficiency of economic operation or acceptable income distribution, the failure will be produced". Stiglitz also believes that "some appropriate interventions are necessary. The problem is that government intervention has many defections, such as waste and inefficiency, it is the true."

The decisive role of the market not only means that the government should be evacuated but also puts forward some new requests to the government. Firstly, the operation of the economy system should be based on the clear property rights. Thus, the government has a duty to definite the property rights and supply the protection in fair and equal way. Secondly, the decision of the economy must be made by enterprises on the basis of price signal with independent operation. It requires the government’s behavior can not be crossed. Thirdly, because market failure needs the government to correct, the interventions of government couldn’t damage the incentive mechanism of the market economy. The government should mainly engage in three functions: First is to establish the rules, strengthen market supervision, maintaining the market order, protecting the effectiveness of competition, and foster a good environment for the development. Second, the government should formulate long-term planning and strategies to avoid short-term behaviors. Third, the government must provide the service to meet the public demand, improve the public education and social security environment, narrow the income gap, and maintain social fairness and justice.

Achieve the Coordination and Cooperation between the Government and the Market Better

Grasp the overall relationship between the market regulation and government regulation. In general, the market’s adjustment is the first and the decisive; the government's macro control is the second and the auxiliary. Government intervention is not directly to enter the market or participate in the competition is not instead of market mechanism, but in different areas and levels, each exhibits their complementary advantages. In addition, we should grasp the "degree" and "quantity" of government regulation and use the macro-control policies reasonably. In this way, we will ensure the government can supply the equal protection of property rights or public management. Continuously improve the ability of the government to make up for market failure, and to avoid government failure. We must clear the boundary between the market and government to make the advantage of the market and the government. We should not only prevent the intervention to the normal operation of market, but also prevent the emergence of market disorder. Take the fields which market mechanism can regulate effectively to the market, let the market play a full role in those fields to maximize the benefits, so that companies and individuals have more vitality and more space to create wealth. The government should guide the market by establishing the plan or policy. In this way, the decisive role of the market will be operated effectively.

Summary

How to handle the relationship between the government and the market is the core of the economic system reform in our country. With the advancement of the reform and opening up, the understanding of this problem is also deepened. We emphasize that the market plays a decisive role in the allocation of resources, it means that the government need to eliminate some intervention from the market. On the other hand, the government should play a better role in the process, such as Protect the property rights, maintain macroeconomic stability, overcome the market failure and promote the structure change of technology, industry and the system, etc.
References

