Theoretical Analysis and Practical Discussion of “Supply-side Reform”

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Abstract: Recently, supply-side reform has become the key word in the economic conference. Promoting the supply-side reform is a major innovation to adapt to the new economic norm, an active choice to adapt to the impact of the international financial crisis, and also an inevitable trend to adapt to the new normal state of our development. Through analyzing the current situation of China's macroeconomic, we found that China's goods and services market showing a "strong willingness to pay, high effective demand, low effective supply"; in a long period of time, it is difficult to expand domestic demand or external demand only depending on the policy. Then, the article argues the theoretical origin of supply-side reform. Finally, the article points out that promoting the supply side reform need to pay attention to three aspects: first, handle the relationship between supply and demand properly; second, pay attention to the "structural reform" of supply-side reform; third, emphasize the quality and efficiency of supply.

Key words: Supply-side, Demand-side, Effective supply, Structural adjustment

On November 10, 2015, at the eleventh meeting of CPC Central Financial Work Leading Group, general secretary Xi Jinping proposed the "supply-side reform" firstly, pointed out that "expand aggregate demand in a modest degree, strengthen the structural reform of supply-side, and improve the quality and efficiency of the supply system." On November 11th, Premier Li Keqiang chaired a State Council executive meeting, emphasized the "supply-side reform", and pointed that "fostering new forms of supply to expand domestic demand". On November 15th, general secretary Xi Jinping proposed that "attention should be paid to both demand and supply at the G20 summit in Antalya". On November 17th, Premier Li Keqiang stressed that towards the high-end industry need to promote the joint force by both supply and demand in the "13th Five-Year" plan meeting. On November 18th, at the APEC meeting, general secretary Xi Jinping pointed out that to solve the deep-seated problems in the world economy, relying on monetary stimulus solely is not enough, we must be determined to make greater efforts to promote economic

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structural reform, the supply system should adapt to the changes in demand structure. Only 9 days, the central referred to the supply-side reform 5 times, we can see that the importance of supply-side reform is not the same. So, what is supply-side reform? What problems should we pay attention to when we push forward the supply-side reform? The study of these issues has theoretical and practical significance to push forward the supply-side reform.

The Meaning of Supply-side Reform and the Reasons for its Implementation

The supply-side reform, is from the supply side and the production side, through the liberation of productive forces to enhance competitiveness and promote economic development. Specifically, the requirement is to clean up zombie enterprises, eliminate backward production capacity, and lock the development direction in the emerging field, innovation field, and create new economic growth point. By means of policy, the supply-side reform includes decentralization, deregulation, financial reform, innovation and so on.

Then, what is the supply? Generally, it refers to the seller sells a certain amount of products and services to the market in a certain time. The amount of goods and services provided by the whole society is total supply. Supply is divided into effective supply and invalid supply. Effective supply refers to the supply of quality, quantity, price, etc., can be recognized by acceptable supply; invalid supply is the opposite. However, supply develop in connotation and denotation continuous. In the low stage of economic development, commodity exchange is not developed, market trading is simple, the supply behavior is terminated after paying hand by hand. With the quality of products and services upgrading, the demand became diversification, advanced, user-friendly and personalized, the supply concept presented new features also. At this stage, according to the experts, the main aspects of supply should include: labor, land, natural resources, capital, innovation power and system.

The supply-side reform provides a new perspective for the "13th Five-Year" economic reform, economic policy turn away expand demand to supply, this is a new ideas and methods to seek a new impetus to economic growth. Of course, the implementation of supply-side reform is not on the spur of the moment, but rather an current events.

On the one hand, the actual demand is high. According to the reference news network reported on January 13, 2016, visitors to foreign consumption reached about 200 billion yuan in 2015, the Chinese people bought these things nearly half. For example, on November 11, 2015, only one day, Taobao's transaction volume reached 91 billion 217 million yuan. Of these things, some imported products is very popular to domestic consumers , a large foreign supermarket in Tmall sold up to 2 million 240 thousand liters of imported milk, this is close to our country 1/10 demand every day, which refresh the record of imported milk. There are not only milk, infant diapers, cosmetics, foreign mobile phone are very popular also. Again, there are more than 100 million passengers outbound tourism in China every year, the average amounted to $5000 in the overseas consumption per person, which manufactured in china. What's more, many people go abroad to grab some "made in China" products. Between the Spring Festival of 2014 .China visitors bought Japanese toilet cover caused panic, the media reported that the toilet cover was manufactured in China. "Purchasing tide", "Sea Amoy hot", there are many similar things..... Actually, most products are purchased abroad, manufactured in China, but the Chinese consumer is disdain, the reason nor it is just a "modern" results, a important reason is that quality of some product is not good in China. With the improvement of people's living
standard, the quality and quality of products are more demanding, while the relative "effective supply" is insufficient. On the other hand, some industries have serious overcapacity. For example, in the traditional steel industry, there are 10 trillion production capacity one year, serious excess capacity is mostly low-end, black, pollution, does not meet the need of effective capacity; moreover, clothing.

From another point of view, looking at the past years experience, our demand management has many lessons worth summing up. From the current view, it is very difficult to continue to rely on policies to expand domestic demand or expand external demand; in the long run, the contribution of aggregate demand management to economic growth is minimal.

In the past time, China's economic growth momentum had no problem, economic growth is relatively stable, but from the past policy we can found, the total demand intervention did not appear to solve the deep-seated economic problems fundamentally, but only relief temporary, and exacerbated the economic volatility to some extent. The bad results is not only that, but also left overcapacity inevitably, such as non-performing assets of banks, local government debt, the operation difficulties of small and medium-sized enterprises or even bankruptcy, the turmoil in the stock market and so on. From this point of view, the past economic policy focused too much attention on demand management, it ignored the supply side and other measures of the deep economic reform inevitably. From some specific areas, the past economic policy is not particularly effective in real estate, prices, circulation and other aspects of the demand management.

From the current point of view, it is difficult to expand domestic or external demand. Rely to the current economic situation, we can see that the space for achieving the expected development goals by relying on policy constraints and government investment solely has been very small. Over the years, China pursued the expansion policy, but aggregated demand, and the resources we relied on are slowly depleted. For example, the rate of non-performing assets of banks can’t continue to implement internal digestion no longer, expansionary monetary policy isn’t feasible no longer; after stimulating several times, the local government’s debt need to digest, by fiscal policy expansion many problems are more prominent; in the context of the global economic slowdown, the exchange rate protection system is also difficult. By expanding exports to stimulate demand is more difficult. In addition, the current urbanization is still in the process of development, two-yuan economic and financial system is still very obvious, private investment and private financing are difficult to increase social security in rural areas such as health and education, these reasons led to the short term of rural residents difficult to stimulate.

When we found the route to the total demand is impossible, it is possible to analyze the economic development of our country's problem from the supply side. From another angle, lift supply suppression, release the supply constraints, there may be a new world. In the short term, China's economic supply constraints have high taxes, high social cost, high monopoly, high business executives and so on, only through the corresponding means to relax the constraint, we may improve short-run economic growth rate. In the long term, China's economy has inhibition in the population structure, capital financing, technology innovation, system and other aspects, through a variety of measures, we can relieve the supply of suppression, enhance the long-term economic growth rate.

The Theoretical Origin of Supply-side Reform

Supply-side reform start from the practice of China's economic reform, as the supply-siders pointed "supply create demand automatically", and "supply stimulate
new supply, create new demand”, based on the theory of supply and demand of Marx’s dialectical view, proposed conforms our country's current economic situation development needs, in line with the economy policy. The source of the supply side is combed, which helps to understand the advance of supply-side reform.

Supply school. Adam Smith, Say, and Laffer, Gilder's view of supply are all supply-siders. In summary, Adam Smith 's View of Supply and Demand should include the following aspects: First, the supply and demand of goods can promote the growth of wealthy production; Second, the currency of media exchange of goods is the exchange of labor in essence; Third, The final result of the exchange of goods is goods to goods, their products are produced by the real means of purchase; Fourth, the demand was divided into absolute demand and effective demand, the market demand is an effective demand.

In the 1930s, by the influence of the great depression, the view of the supply school became pale more and more when leading and explaining the realities. Until more than 40 years later, in the late 1970s, the theory of modern supply schools was revived, which is represented by Raffles. The leap in the modern supply school is the result of the long-term stagflation of the American economy without any reflection. In the face of severe economic stagflation difficulties, Laffer pointed out that only tax cuts and supply management is the best way out of danger, and put forward the famous Laffer curve. The main reason is that the tax rate and the tax relationship should retain in a certain range, the tax rate is high, the total amount of tax levy is also large. However, more than a certain degree, the higher the tax rate, the lower the tax revenue, there are an optimal tax rate. This means that the implementation of the high tax rate is not at low tariff rate, in contrast, the implementation of low tax rates can promote enterprise development, will expand the tax source in the long run, which can bring more taxes. Since there is an optimal tax rate, the optimal tax rate should be chosen in practice.

Marx's dialectical view of supply and demand. Marxist economics is based on dialectical and historical materialism, and has adhered to materialism and theory of supply always, and is based on the dialectical relationship between production and consumption. In Marx's view, the production, distribution, exchange and consumption are one parts of the whole, and the relations of each other are inseparable. The relationship between supply and demand is important relationship between production and consumption. Production and consumption are dialectical. No production, no consumption, no consumption, no production, "production is consumption; consumption is production". But from another point of view, production should be the starting point for human material production and material life.

Examining on the supply, Marx said, "supply, which is the product in the market, or the product that can be offered to the market." To the market, the performance of the human needs should meet the needs of a certain amount in quality and a certain market value in quantity. About demand, Marx said: "The demand for goods on the market, that is, demand." Demand includes the demand for personal consumption and the need to produce consumer information. Market demand is the ability to pay the needs of the effective demand, no ability to pay the social needs of the demand is invalid demand.

Some Problems Need to Notice

There is no doubt that the supply-side reform is a new idea putting forward by the Central Committee for the current economic and social development. It is a good medicine to solve the existing economic problems in our country and a necessary
choice for the economic development to the present stage. In the "13th Five-Year" period, the supply-side reform may be the core of the future for a long period of China's economic reform. But the article points that when promoting supply-side reform, some problems cannot be ignored.

**Handle the relationship between supply and demand properly.**

On the supply side-reform does not mean that the total demand management is not important, and we should avoid the supply and demand contradicting, cannot ignore the demand-side management completely, not either this or that. On the contrary, as prime minister Li Keqiang hosted in the "13th Five-Year" plan, only the supply side and demand side joint, we can promote the industry towards the end forever. Therefore, this paper argues that while supply-side reform is taken as a means, it still needs to cooperate with demand side management, both of them should synchronized.

This is because supply and demand are the two sides of a coin. Giving up any side can not call a complete coin, so it is difficult to reflect its true value. Through the world economy theory and the evolution of economic policy, when the demand side is the key or the supply side is the key, it depends on a country's economic and financial situation. For a large developing country such as China, at present, there are many problems on the supply side, such as population structure, system innovation, mechanism and so on; similarly, the demand side has a lot of pressure also, such as the consumer population is insufficient, lack of enterprise and government investment demand, export growth decline.

For some reason, from China's current macroeconomic situation, we need demand side incentives for long-term, and need supply side reform to develop commission sustainable. As some scholars said, if the short-term demand side reform can be compared to "western medicine", the long-term supply side reform can be compared to "traditional Chinese medicine". So, in the "13th Five-Year" period, China economy will enter a new norm in five years, we need both "traditional Chinese medicine and western medicine" to release the bonus, to solve many problems in economic development, they can promote China's economy to achieve overall and sustainable.

**Pay attention to the structural adjustment of supply side reform.**

Supply-side reform refers to the structural reform of the supply side, should focus on structural adjustment. From the "structural" adjustment, the supply-side reform may be less effective, or even go astray. As we all know, the most difficult problem facing in China's economy is the structural problems, such as economic structure, industrial structure, labor structure and so on. Just like Zhang Shixian said "to reform the supply side, first is to meet the people's need but not to demand, so as to create the potential demand, it needs investment, construction, supply, purchase, consumption, identity, cognitive process, this process will be stable after the market testing in a long-term". All of this means that the primary task of supply side reform is to carry out structural adjustment, to improve supply structure and to enhance effective supply through structural adjustment.

For some reasons, in concrete work, we should clarify the essence of the concept first, formulate the objectives and tasks of the supply side reform, and then put forward specific measures. For example, the reasons of consumption outflow is the quality problem in the end. why industries surplus? What's the cause of the excess? Otherwise, only we focus on supply side reform itself, it may appear the problem of reform has not changed not only, but also lead to new supply side contradictions.

In addition, a "structural reform", there is a view that "structural adjustment", can be used to reduce tariffs, import large amounts of foreign products to make consumption back to the home, this paper also agree with the director of the Institute
of Fiscal Science Liu Shangxi. He pointed out: "lowering tariffs and introducing foreign products can increase consumption, but not expanding domestic demand, nor promoting the practice of structural adjustment, and drawing foreign production." In the short run, consumers have a little interest, but is detrimental in the long run. It is true that tariffs are introduced to introduce foreign products, even if domestic consumers choose to consume products that are still manufactured abroad. In the short term, this approach may enhance the GDP name, but in the long term, is actually detrimental to stimulate domestic production and consumption, and may cause foreign products price lower than the original products, it is more difficult to the domestic goods, to enhance the competitiveness of domestic products, to prevent the technological innovation.

**Emphasizes the quality and efficiency of supply.**

A primary premise to expand demand is the market supply of product quality, service, etc. It must be guaranteed, then consumers of God's identity has been respected truly. Therefore, the supply-side reform is a simple increase in the supply of quantity no longer, and should emphasis on the quality and efficiency of supply more. Like "double eleven", many people buy foreign products, the reason may be that domestic products of similar quality and quality can not get everyone's approval, can not meet everyone's needs. Again, the volume of mobile phone demand is very large in our country, some foreign brands are very popular, the local brand is difficult to sell, consumer demand does not matched, also led to a large number of consumption outflow. The essence of these phenomena is the quality and efficiency of the supply system is not high, the products and services provided can not meet the needs of consumers, and it is the result of low quality and low efficiency.

On the contrary, if the market provides high quality and inexpensive products and services, every consumer will love it. Especially for those who have more attractive goods, are willing to do everything possible to buy them. The so-called wine is not afraid of deep alley. At all times and in all lands, this is the nature of human, the common sense of things, the normal state of the city. Thousands of cases in all walks of life are proving the fact. The domestic elite high threshold still manage to break, famous works of price to sell, a fairy tour selection better, etc. In this way, effective supply will stimulate effective demand to some extent. The effective supply must have both the quality and the efficiency. Only in this way we can push forward the supply side reform steadily.

**Reference**


