

Different Influences of Supply-side Structural Reform and Supply-side Economics on World Economy

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Abstract: There are fundamental differences between supply-side structural reform and supply-side economics in their influence on the world economy. The supply-side economics has damaged the economic interests of other countries. While Reagan's economics gradually revived the American economy, some other countries in the world fell into depression or were brewing a crisis. There is a hidden connection between the two. Supply-side structural reform helps to promote the common economic development of all countries and protect the stability of the world economic environment; it leaves room for later countries to develop; Besides, it also helps to fully revitalize the world economy and form a "community of destiny" for mutual benefit.

Introduction

Both supply-side structural reform and the western supply-side economics contain the word "supply" and they all regard tax reduction and other methods as important means of regulation, so they are easily confused. If this confusion is used with ulterior motives, the capitalist factors in the Western supply-side economics will avail the opportunity to get in, and the supply-side structural reform of socialist countries will be led into the wrong path by western capitalism. General secretary Xi Jinping delivered a speech at the provincial and ministerial cadres' seminar on the fifth Plenary Session of the 18th CPC Central Committee. He pointed out: "The supply-side structural reform we are talking about is not the same as the supply-side economics of the west. We cannot regard the supply-side structural reform as a replica of the western supply-side economics, but also prevent some people from using their explanations to promote 'new liberalism' and take the opportunity to give out negative public opinion."^[1] In order to prevent intentional or unintentional confusion between these two aspects, it is necessary to make some discussion and explanation of their differences, so as to highlight their essential differences.

Supply-side economics has damaged the economic interests of other countries

While Reagan's economics gradually revived the American economy, some other countries in the world fell into depression or were brewing a crisis. There is a hidden connection between the two.

During the Reagan administration, interest rates in the United States remained high, which is closely related to the theory of supply-side economics. The supply-side economics believes that the root of American economic stagflation in the 1970s is that Keynesian economic policies used expansionary fiscal and monetary policies to expand total demand in order to unilaterally pursue full employment, so as to result in high inflation. Thus, the treatment of stagflation must start from the control of inflation, so the Reagan administration based on the supply-side economics has implemented a tight monetary policy. On the other hand, the tax reduction advocated by the supply-side economics have led to a significant reduction in the Reagan administration's fiscal revenue, which has led to a serious fiscal deficit. To avoid the inflation caused by the deficit, the Reagan administration could only borrow heavy debt from the capital market to solve the deficit, which has made the real interest rate rise sharply. High interest rates have attracted large inflows of foreign capital into the United States, and helped its economic recovery. From 1981 to 1985, the high real interest rate in the United States attracted \$80 to \$90 billion of foreign capital into the it every year ^[2], which made it change from a net capital outflow country to a net capital inflow

country. From 1976 to 1979, the outflow capital of the United States totaled \$211.7 billion, and the inflow capital \$167.5 billion. In 1983, the outflow capital was \$55 billion, and the inflow capital was \$84.3 billion, while in 1984, the outflow capital was \$20.4 billion, and the inflow capital was \$97.3 billion. During this period, the United States has become a country of net inflow of capital. The benefits of this capital inflow to the American economy and the support for the supply-side economics are obvious. Supply-side economics argue for expanding supply by increasing savings and investment through tax reduction, which has led to great fiscal deficits and no increase in domestic savings during Reagan's first term. At this time, the large inflow of foreign capital effectively compensated the lack of savings, supported the fiscal deficit, and ensured the expansion of investment and supply. As some researchers have pointed out, under the guidance of high interest rates of the US dollar, large foreign capital has entered the US financial market, which has avoided pushing up prices, causing inflation, and effectively supported US economic growth ^[3].

Although this kind of transnational flow of capital is beneficial to American economy, it does more harm than good to the countries with net capital outflows. Though the currency depreciation caused by capital outflow is beneficial to the export of Europe, Japan and other countries to the United States, the more important effect is that the outflow of great capital makes the world market outside the United States tight, and thus caused a sharp increase in the real interest rate. This has seriously damaged the economic growth of related countries. Especially for the high-debt countries in Latin America, the increase in interest rates has undoubtedly increased their debt burden. In the 1980s, the debt crisis in Latin America was greatly related to this. Thus at that time, European countries and third world countries generally accused the United States of "harming others to benefit itself" ^[4].

Besides, it should be noted that the large inflow of capital into the United States caused a significant appreciation of the US dollar, while other currencies such as European currency and Japanese yen were relatively depreciated. This change of exchange rate has also caused an imbalance of interests between the United States and other countries. Taking oil prices as an example, from 1981 to 1984, international oil prices in US dollars fell by 18%. Over the same period, however, the price of oil in European currency unit rose 13%. Moreover, the price of other raw materials fell 6% in US dollars, but rose 30% in European currency unit ^[5]. This means that the cost of imported oil and other raw materials in the United States will decrease, which can provide strong support to suppress domestic inflation, while in Europe, the rising cost of raw materials will increase the pressure of their domestic inflation. The same is true of the influence of the appreciation of the US dollar on product prices. During that period, the production price of industrial goods in the United States rose by 5% in dollar terms, while the average export value of industrial goods outside it fell by 11%. This has further helped the United States suppress inflation, but intensified inflationary pressures in other countries ^[6].

Supply-side structural reform helps promote the common development of the world economies

Supply-side structural reform helps maintain the stability of the world economic environment. Different from the ups and downs of the dollar exchange rate when the supply-side economics dominated the US economic policy, since the implementation of the supply-side structural reform, RMB has been attempting to maintain stability against world major currencies, and trying to provide a relatively stable development environment for the world economy. In recent years, China's economy is facing problems such as overcapacity, great overstocked products, and declining profits of export enterprises. China has no intention of promoting exports and digesting overcapacity through devaluing its currency. Chinese leaders have repeatedly said that China has no intention of playing a trade war by currency depreciation. In March 2016, Li Keqiang met with US Treasury Secretary Jacob Lew and said: RMB does not have the basis of long-term depreciation, and we have no intention of playing a currency war. By devaluing to stimulate exports, this kind of thing is not beneficial to both sides ^[7]. In fact, the RMB exchange rate has remained relatively stable in recent years. Apart from the depreciation caused by the sharp appreciation of the dollar

caused by the adjustment of the US monetary policy, the RMB has remained relatively stable against other major world currencies. And the exchange rate of RMB against a basket of currencies has been stable and has appreciated slightly. This has made a significant contribution to stabilizing the world trading environment and helped other countries maintain profits from exports to China during the downturn. China, however, is under pressure. Thus, China strives to turn this pressure into a driving force for industrial restructuring. The supply-side structural reform has provided the macro support for this transformation: completing the elimination of low-end industries, and developing the supply-side structural adjustment of medium and high-end industries.

Supply-side structural reform leaves room for development for late-developing countries. China promotes supply-side reform to abandon low-end and develop high-end industries. This adjustment not only makes itself gain more profits, but also leaves room for late-developing countries such as Vietnam and India. In recent years, countries such as Vietnam and India have used labor advantages to vigorously develop processing and manufacturing industries, which sets a competitive threat to Chinese manufacturing industry. However, China does not compete with these countries for the processing and manufacturing industries. On the contrary, it has voluntarily given up its traditional advantages and proposed to withdraw from some low-end fields such as processing and manufacturing and develop medium and high-end industries instead. China's action is undoubtedly a win-win situation. This has not only completed the adjustment of supply-side structure, but also assisted Vietnam, India and other late-developing countries, which is helpful to these countries to play their advantages of labor intensity and low labor cost.

Supply-side structural reform helps to comprehensively invigorate the world economy and form a "community of destiny" for mutual benefit. Supply-side structural reform is of course a strategic measure aimed at solving domestic economic problems. However, it also has a close relationship with China's international strategy, and the two echo and complement each other. For example, in recent years, China's "One Belt, One Road" has pushed China's high-speed equipment like high-speed rail to the world. This will help to resolve the serious overcapacity of domestic steel, and at the same time raise the level of "made in China" for export. "De capacity" and "improving the quality of made in China" are both important contents of supply-side structural reform. China's supply-side structural reform and the One Belt And One Road strategy closely coordinate and support each other, which not only resolve various structural contradictions in the domestic economy, but also support the economic development of all countries in the world. Firstly, it is obvious to support the infrastructure construction of the backward countries, which will lay a strong foundation for these countries to break through the bottleneck of infrastructure and get the opportunity of rapid development. Here, it should be pointed out that China is taking a win-win approach to solve its overcapacity. China has not competed with other countries for the way out of overcapacity, and also has not used trading war to dump Chinese steel and other overcapacity to satisfy itself but to harm others. Instead, China is trying to turn its overcapacity (steel, cement, etc.) into the scarce resources (infrastructure construction, high-speed rail, etc.) of other countries, so as to meet the needs of other countries and achieve a win-win situation while removing its own capacity. This is in fact completely consistent with the idea of domestic supply-side structural reform. By targeting the demand side, changing the supply side, and targeting the infrastructure needs of the underdeveloped countries, it can transform excess steel and cement capacity into the infrastructure supply. In this process, China has not only skillfully resolved its own surplus, but has also focused on using this idea to help other countries resolve excess. After the 2008 financial crisis, the world economy was generally depressed, and there were serious overcapacity in Europe and Japan. Most of these countries still started from the demand side and conducted low-interest-rate policies to stimulate the economy. That makes it harder to resolve overcapacity, and low interest rates make it harder for these countries to find profits. The Asian Infrastructure Investment Bank (AIIB), initiated by China, has skillfully guided these excess capital into infrastructure construction in the backward regions of Asia. This has solved the financial and technological surplus for these countries, which is also a win-win solution. The One Belt And One Road will allow countries around the world to truly achieve "interconnection" at all levels. This kind of "interconnection" will

further deepen the world economy and promote the development of international trade and international division of labor towards a deeper level. In such an environment, the supply-side approach will lead countries to change their focus from investment, consumption, and exports to capital, technology, and labor. This will undoubtedly help countries to form their own "comparative advantages" in supply, so as to promote the development of productivity of all countries and improve the efficiency and quality of the world economy.

China has begun to advocate the "supply-side" approach to countries around the world on various international occasions. At the 23rd APEC leaders' informal meeting, Chairman Xi Jinping pointed out: "To solve the deep-level problems of the world economy, monetary stimulus alone is not enough. It is necessary be determined to make greater efforts in the direction of economic structural reform so that the supply system can adapt to changes in the demand structure."^[8] At the G20 Hangzhou Summit, China's prescriptions for the world economy included innovation, linkage, inclusiveness and vitality. Its essential connotation is to advocate the supply-side reform idea within the world to achieve win-win results for all countries and form a community of destiny for mutual benefits. It can be seen that, unlike the supply-side economics, which sacrifices other countries to achieve its own success, supply-side structural reform is committed to promoting the common development of all countries and the common prosperity of the world economy.

Conclusion

If we use one sentence to summarize the differences between supply-side economics and supply-side structural reform, we may put it like this: The former is the nature of the mad plunder of capital under the capitalist system, while the latter is a socialist factor with Chinese characteristics that continues to advance to a deeper level. Since China's reform and opening up and the establishment of a socialist system with Chinese characteristics, after years of rapid development, some people have already become rich firstly. The problem of how to achieve the first rich to lead the later so as to finally achieve common prosperity meets with China's economic growth shift and structural transformation. At this time, the idea of supply-side structural reform comes into being. On the one hand, the supply-side structural reform can make China's supply adapt to the demand, so as to promote the sustainable and healthy development of China's economy. On the other hand, it is also a profound adjustment of the relationship between capital and labor. When capital is lost on the road of unilateral pursuit of interests and on the verge of dilemma, the idea of supply-side structural reform points out a new direction for capital. If capital can accept the guidance of supply-side structural reform and embark on the path of "for the people", it can not only achieve its own pursuit of high profits, but also bring higher returns to employees. In this way, it is no longer only an illusory ideal that the first rich leads the later, but a real possibility. From an international perspective, the gap between the rich and poor in different countries has become increasingly prominent. After years of development, China has accumulated considerable economic foundation and experience. However, unlike capitalist countries, China does not use its capital, technology and other advantages to gain profits by exploiting other developing countries. On the contrary, China seeks mutual achievement and common development with other countries, pursues the harmonious development of capital and labor within the world, and breaks the sharp opposition between capital and labor. In addition, based on eliminating capital exploitation of labor, China will promote win-win and harmonious production relations to the whole world and work with other countries to build a community of destiny for all mankind.

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